

Auditing Procedures Report

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

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Egelston Township	County Muskegon
Audit Date 6/30/05	Opinion Date 10/5/05	Date Accountant Report Submitted to State: 12/1/05	

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 notes, or in the report of 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) Brickley DeLong, PLC			
Street Address 500 Terrace Plaza, P.O. Box 999		City Muskegon	State MI
Accountant Signature <i>Timothy D. Uiter, C.P.A. for Brickley DeLong, PLC</i>		ZIP 49443-0999	Date 12/1/05

Egelston Township
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2005

Egelston Township

TABLE OF CONTENTS

Management's Discussion and Analysis.....	i - vii
Independent Auditors' Report.....	1
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets.....	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet—Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances —Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	8
Statement of Net Assets—Proprietary Funds	9
Statement of Revenues, Expenses and Changes in Net Assets— Proprietary Funds	10
Statement of Cash Flows—Proprietary Funds	11
Statement of Fiduciary Assets and Liabilities—Fiduciary Funds	12
Notes to Financial Statements	13
Required Supplemental Information	
Budgetary Comparison Schedule—General Fund	26
Budgetary Comparison Schedule—Fire Fund	27
Budgetary Comparison Schedule—Street Light Fund	28
Other Supplemental Information	
Statements of Other Governmental Funds	
Balance Sheet.....	30
Statement of Revenues, Expenditures and Changes in Fund Balances	31

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, 2005. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

Assets of the Township exceeded liabilities of \$628,946 at the close of the fiscal year by \$6,932,126 (net assets). Of this amount, \$3,698,698 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

Governmental activities had net assets totaling \$3,102,626 while business-type activities ended the year with \$3,829,500 in total net assets.

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 Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 cultural and recreational activities. The business-type activities of the Township include 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.

Egelston 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 and Street Light Fund, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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. The enterprise fund financial statement provides information for the Sewer fund, which is a major fund.

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.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplemental information on budgetary information.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of June 30, 2005, the Township's net assets from governmental activities totaled \$3,102,626 (45%) and \$3,829,500 (55%) from business-type activities, creating a total government-wide net assets total of \$6,932,126.

In examining the composition of these net assets, the reader should note that governmental activities net assets are 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. The unrestricted net assets for governmental activities actually depict a balance of \$1,518,674. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$3,829,500 in net assets and \$2,180,024 in unrestricted net assets.

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets and other assets	\$ 1,997,082	\$ 2,035,942	\$ 2,641,287	\$ 2,631,903	\$ 4,638,369	\$ 4,667,845
Capital assets	1,226,935	1,169,315	1,695,768	1,772,350	2,922,703	2,941,665
Total assets	3,224,017	3,205,257	4,337,055	4,404,253	7,561,072	7,609,510
Liabilities						
Current liabilities	106,168	119,081	202,635	129,496	308,803	248,577
Noncurrent liabilities	15,223	15,565	304,920	400,808	320,143	416,373
Total liabilities	121,391	134,646	507,555	530,304	628,946	664,950
Net assets						
Invested in capital assets, net of related debt	1,226,935	1,169,315	1,649,476	1,647,574	2,876,411	2,816,889
Restricted	357,017	367,993	-	-	357,017	367,993
Unrestricted	1,518,674	1,533,303	2,180,024	2,226,375	3,698,698	3,759,678
Total net assets	\$ 3,102,626	\$ 3,070,611	\$ 3,829,500	\$ 3,873,949	\$ 6,932,126	\$ 6,944,560

Net assets of the Township's governmental activities increased by \$32,015 (1.0%) during the 2005 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

At the end of the fiscal year, the net assets for business-type activities decreased \$44,449 (1.1%). The sewer fund comprises the business-type activities.

Management's Discussion and Analysis

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues						
Charges for services	\$ 128,984	\$ 137,245	\$ 373,038	\$ 368,493	\$ 502,022	\$ 505,738
Operating grants and contributions	-	106,422	-	-	-	106,422
Capital grants and contributions	21,076	-	10,990	82,720	32,066	82,720
General revenues						
Property taxes	770,450	713,876	-	-	770,450	713,876
Franchise fees	35,237	35,028	-	-	35,237	35,028
Grants and contributions not restricted	775,642	784,190	-	-	775,642	784,190
Unrestricted investment earnings	33,372	22,236	38,896	25,135	72,268	47,371
Miscellaneous	77,812	27,247	16,981	-	94,793	27,247
Total revenues	<u>1,842,573</u>	<u>1,826,244</u>	<u>439,905</u>	<u>476,348</u>	<u>2,282,478</u>	<u>2,302,592</u>
Expenses:						
General government	740,023	714,422	-	-	740,023	714,422
Public safety	857,066	952,759	-	-	857,066	952,759
Public works	131,755	146,551	-	-	131,755	146,551
Community and economic development	16,932	6,669	-	-	16,932	6,669
Culture and recreation	64,782	82,563	-	-	64,782	82,563
Sewer Fund	-	-	484,354	622,204	484,354	622,204
Total expenses	<u>1,810,558</u>	<u>1,902,964</u>	<u>484,354</u>	<u>622,204</u>	<u>2,294,912</u>	<u>2,525,168</u>
Change in net assets	<u>32,015</u>	<u>(76,720)</u>	<u>(44,449)</u>	<u>(145,856)</u>	<u>(12,434)</u>	<u>(222,576)</u>
Net assets – July 1	<u>3,070,611</u>	<u>3,147,331</u>	<u>3,873,949</u>	<u>4,019,805</u>	<u>6,944,560</u>	<u>7,167,136</u>
Net Assets – June 30	<u>\$3,102,626</u>	<u>\$3,070,611</u>	<u>\$3,829,500</u>	<u>\$3,873,949</u>	<u>\$6,932,126</u>	<u>\$6,944,560</u>

At year-end, on June 30, 2005, net assets increased by \$32,015 in governmental activities and decreased by \$44,449 in business-type activities, a decrease of \$12,434 government wide.

Governmental Activities

Operating grants and contributions decreased in fiscal year 2005 because the Township received a FEMA grant in the prior year. This year the Township received voting machines from the State of Michigan which is shown as capital grants and contributions above. Total expenses are down over \$90,000 largely due to reductions in the public safety department because there was no FEMA grant to spend and over-time was reduced.

Business-type Activities

Capital grants and contributions are down over \$70,000 because these were fewer new hook-ups this year. Sewer fund expenses are down over \$130,000 because of a significant drop in depreciation expense from the prior year.

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, unreserved 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 the end of the 2005 fiscal year, the governmental funds reported a combined fund balance of \$1,906,137. This number represents the fund balance of \$1,525,353 in the General Fund, \$4,000 in the Fire Fund, \$351,120 in the Street Light Fund and \$25,664 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The amount of the fund balance that is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders is \$76,283. Of the remaining unreserved fund balances, \$567,000 is designated for various improvements.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year 2005, the unreserved General Fund fund balance was \$1,453,070 and the total General Fund fund balance was \$1,525,353. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 118% 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 assets of the Sewer Fund decreased by \$44,449.

General Fund Budget

During the current fiscal year, the Township made several amendments to its original budget. General Fund revenues were increased for licenses and permits because the Township experienced more development than anticipated. State shared revenues were increased because more revenues were anticipated from the state and other revenue was increased because the Township anticipated more miscellaneous receipts than what was originally budgeted. Increases in General Fund expenditures included the Township hall for the purchase of BS&A software and additional costs to finish paving the parking lot. Landfill expenditures were increased because the Township paid for curbside clean-up and tire collections. The planning department budget was increased for a consultant to develop a master plan for the Township, and other expenditures were increased for the purchase of aerial maps, storm water permits, and the leaf dump approach and for gypsy moth spraying. Transfers out were increased for the Fire Fund because the budget for the Fire department was increased. The Township decreased the budget for payroll benefits and insurance because these expenditures were expected to be lower.

The following comments summarize the major variations from the final budget to actual revenues and expenditures. General Fund property taxes were lower than budgeted because collections were lower than anticipated and state shared revenues were less than expected because of state budget cuts. Investment earnings were higher than budgeted because interest rates increased during the year. Other revenues were also higher than budgeted because the Township received an insurance reimbursement for a park pavilion that burned down. Capital outlay expenditures were higher than budgeted because voting machines received from the State of Michigan in a grant were not budgeted for.

Fire Fund Budget

During the current fiscal year, the Township made several amendments to its original budget. Fire Fund revenues were increased for the settlement funds received from Sun Chemical. Amendments made for Fire Fund expenditures included lieutenant wages, captain wages, retro wages, clothing, vehicles maintenance, equipment maintenance, radio maintenance, fuel, building repairs and fire truck refurbishing, all of which were originally under budgeted. The capital outlay was budget was decreased because improvements to a fire engine were not expected to be as significant as originally planned. The budget for transfers in from the General Fund was increased to support these additional expenditures.

There were no significant variations from the final budget to actual revenues and expenditures in the Fire Fund.

Capital Assets Administration

The Township's investment in capital assets for its governmental and business-type activities as of June 30, 2005 totaled \$2,922,703 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, office equipment, equipment, utility systems and vehicles.

Major governmental capital asset events during the current year included two new park pavilions, new voting machines (donated by the State of Michigan), a new well at the cemetery for irrigation, additions to the bike path, completed of the parking lot, a paved approach at the leaf site, a new copy machine, BS&A software and improvements to a fire truck. Business-type activities have \$22,560 in construction in progress due to engineering fees related to an expansion of the sewer system. This project will continue into fiscal 2006.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities 2005	Business-type Activities 2005	Total
Land	\$ 229,710	\$ -	\$ 229,710
Land improvements	188,392	-	188,392
Building and improvements	460,700	13,727	474,427
Utility systems	-	1,646,418	1,646,418
Equipment	69,226	13,063	82,289
Office equipment	26,078	-	26,078
Vehicles	252,829	-	252,829
Construction in progress	-	22,560	22,560
Total	<u>\$ 1,226,935</u>	<u>\$ 1,695,768</u>	<u>\$ 2,922,703</u>

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

Long-Term Debt

At the end of the fiscal year, the Township had total outstanding debt of \$494,623 consisting of a general obligation bond and compensated absences. The general obligation debt of \$460,920 is backed by the full-faith and credit of the Township.

Outstanding Debt

	Governmental Activities 2005	Business-type Activities 2005	Total
General obligation bond	\$ -	\$ 460,920	\$ 460,920
Compensated absences	30,446	3,257	33,703
Total	<u>\$ 30,446</u>	<u>\$ 464,177</u>	<u>\$ 494,623</u>

The Township's total debt decreased by \$54,562 during the fiscal year. This decrease was primarily due to the normal debt payoffs as provided for in the fiscal year 2005 budget.

Additional information on the Township's long-term debt can be found in Note G of the "Notes to the 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 comprised over 83% of the General Fund revenue sources. In fiscal 2006, state revenue sharing is expected to be the same as last year. Property tax revenues are expected to remain steady.

The Township is expecting to increase expenditures in the coming year. The Fire Fund is expected to increase appropriations needed from the General Fund, salary expense is anticipated to increase, insurance expense is expected to increase, a new zoning administrator/planner position is budgeted for, legal services are expected to increase and the Township is planning to make improvements on the boat launch at the Beals Wolf Lake Park.

The Township Board and staff remain optimistic that the Township's economic stability will be further enhanced by several projects and other variables in various stages of maturity. These include continued development in the residential and commercial sectors and movement in Lansing to stabilize state revenue sharing. The Township also entered into an agreement with Muskegon County and two other townships to expand the sewer system. This agreement was entered into after the end of fiscal year 2005. The project will be funded by a bond not to exceed \$29,000,000, of which the Township is responsible for 13.8%. The bond will be paid back over 40 years. The sewer system expansion will be on Brooks, White, Carr and Laketon, a pump station will be eliminated on Apple and Carr and a new pump station will be built on MacArthur.

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

October 5, 2005

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, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Egelston Township, Michigan's management. Our responsibility is to express opinions 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 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i through vii and 26 through 31 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

Township Board
October 5, 2005
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Egelston Township, Michigan's basic financial statements. The combining nonmajor governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Egelston Township
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS			
	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 1,596,985	\$ 2,040,201	\$ 3,637,186
Receivables	10,148	248,776	258,924
Internal balances	17,779	(17,779)	-
Due from other governmental units	251,972	-	251,972
Prepaid items	120,198	14,146	134,344
Total current assets	1,997,082	2,285,344	4,282,426
NONCURRENT ASSETS			
Capital assets, net			
Nondepreciable	229,710	22,560	252,270
Depreciable	997,225	1,673,208	2,670,433
Access rights, net	-	65,361	65,361
Special assessments	-	58,315	58,315
Notes receivable	-	232,267	232,267
Total noncurrent assets	1,226,935	2,051,711	3,278,646
Total assets	3,224,017	4,337,055	7,561,072
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	90,945	23,396	114,341
Due to other governmental units	-	19,982	19,982
Bonds, capital leases and contracts, due within one year	-	156,000	156,000
Compensated absences, due within one year	15,223	3,257	18,480
Total current liabilities	106,168	202,635	308,803
NONCURRENT LIABILITIES			
Bonds, capital leases and contracts, less amounts due within one year	-	304,920	304,920
Compensated absences, less amounts due within one year	15,223	-	15,223
Total noncurrent liabilities	15,223	304,920	320,143
Total liabilities	121,391	507,555	628,946
NET ASSETS			
Invested in capital assets, net of related debt	1,226,935	1,649,476	2,876,411
Restricted for:			
Street lights	351,120	-	351,120
Muskegon Regional Water Alliance	5,897	-	5,897
Unrestricted	1,518,674	2,180,024	3,698,698
Total net assets	\$ 3,102,626	\$ 3,829,500	\$ 6,932,126

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for services</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Governmental activities						
General government	\$ 740,023	\$ 21,120	\$ 21,076	\$ (697,827)	\$ -	\$ (697,827)
Public safety	857,066	107,864	-	(749,202)	-	(749,202)
Public works	131,755	-	-	(131,755)	-	(131,755)
Community and economic development	16,932	-	-	(16,932)	-	(16,932)
Culture and recreation	64,782	-	-	(64,782)	-	(64,782)
Total governmental activities	1,810,558	128,984	21,076	(1,660,498)	-	(1,660,498)
Business-type activities						
Sewer	484,354	373,038	10,990	-	(100,326)	(100,326)
Total government	<u>\$ 2,294,912</u>	<u>\$ 502,022</u>	<u>\$ 32,066</u>	(1,660,498)	(100,326)	(1,760,824)
General revenues						
Taxes						
Property taxes, levied for general purposes				247,383	-	247,383
Property taxes, levied for specific purposes				523,067	-	523,067
Franchise fees				35,237	-	35,237
Grants and contributions not restricted to specific programs				775,642	-	775,642
Unrestricted investment earnings				33,372	38,896	72,268
Miscellaneous				77,812	16,981	94,793
Total general revenues				1,692,513	55,877	1,748,390
Change in net assets				32,015	(44,449)	(12,434)
Net assets at July 1, 2004				3,070,611	3,873,949	6,944,560
Net assets at June 30, 2005				<u>\$ 3,102,626</u>	<u>\$ 3,829,500</u>	<u>\$ 6,932,126</u>

The accompanying notes are an integral part of this statement.

Egelston Township
BALANCE SHEET
Governmental Funds
June 30, 2005

	General Fund	Fire Fund	Street Light Fund	Other governmental funds	Total governmental funds
ASSETS					
Cash and investments	\$ 1,212,946	\$ -	\$ 358,362	\$ 25,678	\$ 1,596,986
Accounts receivable	9,770	323	55	-	10,148
Due from other funds	38,921	-	-	-	38,921
Due from other governmental units	251,972	-	-	-	251,972
Prepaid items	72,283	47,915	-	-	120,198
Total assets	<u>\$ 1,585,892</u>	<u>\$ 48,238</u>	<u>\$ 358,417</u>	<u>\$ 25,678</u>	<u>\$ 2,018,225</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 51,009	\$ 7,421	\$ 7,297	\$ 14	\$ 65,741
Accrued liabilities	9,530	15,675	-	-	25,205
Due to other funds	-	21,142	-	-	21,142
Total liabilities	60,539	44,238	7,297	14	112,088
Fund balances					
Reserved for prepaid items	72,283	4,000	-	-	76,283
Unreserved					
Designated, reported in General Fund	567,000	-	-	-	567,000
Undesignated, reported in General Fund	886,070	-	-	-	886,070
Special revenue funds	-	-	351,120	25,664	376,784
Total fund balances	<u>1,525,353</u>	<u>4,000</u>	<u>351,120</u>	<u>25,664</u>	<u>1,906,137</u>
Total liabilities and fund balances	<u>\$ 1,585,892</u>	<u>\$ 48,238</u>	<u>\$ 358,417</u>	<u>\$ 25,678</u>	<u>\$ 2,018,225</u>

The accompanying notes are an integral part of this statement.

Egelston Township
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**
June 30, 2005

Total fund balance—governmental funds	\$ 1,906,137
---------------------------------------	--------------

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

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

Cost of capital assets	\$ 2,552,302	
Accumulated depreciation	<u>(1,325,367)</u>	1,226,935

Compensated absences in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

(30,446)

Net assets of governmental activities in the Statement of Net Assets	<u><u>\$ 3,102,626</u></u>
--	----------------------------

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, 2005

	General Fund	Fire Fund	Street Light Fund	Other governmental funds	Total governmental funds
REVENUES					
Property taxes	\$ 247,383	\$ 447,009	\$ 76,058	\$ -	\$ 770,450
Licenses and permits	122,795	-	-	-	122,795
Intergovernmental revenues - state	796,718	-	-	-	796,718
Charges for services	22,640	17,636	-	-	40,276
Investment earnings	27,298	-	6,074	-	33,372
Other	39,927	39,035	-	-	78,962
Total revenues	1,256,761	503,680	82,132	-	1,842,573
EXPENDITURES					
Current					
General government	535,727	-	-	-	535,727
Public safety	147,464	510,331	-	-	657,795
Public works	24,374	-	93,093	-	117,467
Community and economic development	15,273	-	-	-	15,273
Culture and recreation	52,964	-	-	170	53,134
Other governmental functions	348,045	-	-	15	348,060
Capital outlay	105,212	36,194	-	-	141,406
Total expenditures	1,229,059	546,525	93,093	185	1,868,862
Excess of revenues over (under) expenditures	27,702	(42,845)	(10,961)	(185)	(26,289)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	42,845	-	-	42,845
Transfers out	(42,845)	-	-	-	(42,845)
Total other financing sources (uses)	(42,845)	42,845	-	-	-
Net change in fund balances	(15,143)	-	(10,961)	(185)	(26,289)
Fund balances at July 1, 2004	1,540,496	4,000	362,081	25,849	1,932,426
Fund balances at June 30, 2005	\$ 1,525,353	\$ 4,000	\$ 351,120	\$ 25,664	\$ 1,906,137

The accompanying notes are an integral part of this statement.

Egelston Township
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2005

Net change in fund balances—total governmental funds: \$ (26,289)

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

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (83,786)	
Capital outlay	<u>141,406</u>	57,620

Decreases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

684

Change in net assets of governmental activities	\$ <u><u>32,015</u></u>
---	-------------------------

The accompanying notes are an integral part of this statement.

ASSETS

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Fund
 For the year ended June 30, 2005

	Enterprise Fund Sewer
REVENUES	
Charges for services	\$ 373,038
OPERATING EXPENSES	
Administration	26,094
Operations	327,870
Depreciation and amortization	119,253
Total operating expenses	473,217
Operating loss	(100,179)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	38,896
Other	16,981
Interest expense	(11,137)
Total nonoperating revenues	44,740
Loss before capital contributions	(55,439)
Capital contributions	10,990
Change in net assets	(44,449)
Total net assets at July 1, 2004	3,873,949
Total net assets at June 30, 2005	\$ 3,829,500

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2005

	Enterprise Fund Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 375,561
Receipts from interfund services provided	2,449
Payments to suppliers	(240,569)
Payments to employees	(90,594)
Internal activity—payments to other funds	17,779
Net cash provided by operating activities	64,626
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	32,946
Purchases of capital assets	(22,560)
Principal and interest paid on capital debt	(39,321)
Other receipts	16,981
Net cash used by capital and related financing activities	(11,954)
CASH FLOW FROM INVESTING ACTIVITIES	
Investment earnings	38,896
Net increase in cash and investments	91,568
Cash and investments at July 1, 2004	1,948,633
Cash and investments at June 30, 2005	\$ 2,040,201
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (100,179)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization expense	119,253
Change in assets and liabilities	
Receivables, net	4,972
Prepaid items	(8,340)
Internal balances	17,779
Compensated absences	10
Accounts payable	19,237
Accrued liabilities	156
Due to other governmental units	11,738
Net cash provided by operating activities	\$ 64,626
Noncash financing activities	
Assumption of additional County debt	\$ 60,245
Guaranteed debt paid directly by a third party	85,951

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Fiduciary Funds
 June 30, 2005

	Agency Funds		
	Payroll	Current Tax Account	Total
ASSETS			
Cash and investments	\$ 22,770	\$ 17,751	\$ 40,521
Receivables	4,935	-	4,935
Total assets	<u>\$ 27,705</u>	<u>\$ 17,751</u>	<u>\$ 45,456</u>
LIABILITIES			
Due to other governmental units	\$ 4,113	\$ 17,751	\$ 21,864
Other liabilities	23,592	-	23,592
Total liabilities	<u>\$ 27,705</u>	<u>\$ 17,751</u>	<u>\$ 45,456</u>

The accompanying notes are an integral part of this statement.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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.

1. Reporting Entity

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

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

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. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

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 government 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.

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. 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 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 Township reports the following major proprietary fund:

The Sewer Fund accounts for user charges, operating expenses and debt service of the Township's sewer system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

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 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

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 proprietary 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.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Assets, Liabilities and Net Assets or Equity

a. Deposits 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.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

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.

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

b. Receivables and Payables—Continued

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each 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.

Uncollectible 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 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 2004 state taxable value for real/personal property of the Township totaled approximately \$151,787,000. The ad valorem taxes levied consisted of 1.1920, 2.8675 and 0.4879 mills for the Township's general operations, fire protection and operations, and street lights, respectively. These amounts are recognized respective in the General Fund, Fire Fund, and Street Light Fund.

c. 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.

d. Capital Assets

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</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	3-7

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

e. Compensated Absences

Township employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid for unused vacation and sick leave under limits that vary by employee group. All vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. 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.

f. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

g. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to June 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level for the General Fund and the fund level for all other governmental funds. The Township Board made several supplemental budgetary appropriations throughout the year.

2. Excess of Expenditures Over Appropriations

For the year ended June 30, 2005, actual expenditures exceeded appropriations for elections by \$4,045 and capital outlay by \$24,156 in the General Fund. These overexpenditures were funded with available fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2005, the Township had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's Rating	Percent
External investment pools	\$ 235,753	30	not rated	13.42%
Negotiable certificates of deposit	201,583	340	not rated	11.48
Repurchase agreements	<u>1,318,988</u>	1	AAA	<u>75.10</u>
Total fair value	<u>\$ 1,756,324</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>43.81</u>		

The Township voluntarily invests certain excess funds in external investment pools (Pools). The fair value of the Township's investments is the same as the value of the Pools. The Pools are not regulated nor are they registered with the SEC.

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE C—DEPOSITS AND INVESTMENTS—Continued

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 a nationally recognized statistical rating organization (NRSROs). 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. More than 5% of the Township's investments are in Federal Home Loan Bank Bonds held through repurchase agreements and in negotiable certificates of deposit issued by Kent Commerce Bank and Michigan Heritage Bank. These investments are 75.10%, 5.83%, and 5.64%, respectively, of the Township's investments.

Custodial credit risk - deposits. The Township does not have a custodial credit risk policy for 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, 2005, \$1,207,155 of the Township's bank balance of \$1,907,155 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.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 229,710	\$ -	\$ -	\$ 229,710
Construction in progress	9,913	-	9,913	-
Total capital assets, not being depreciated	239,623	-	9,913	229,710
Capital assets, being depreciated:				
Land improvements	203,433	42,937	-	246,370
Buildings and improvements	850,150	20,500	-	870,650
Equipment	154,075	38,363	-	192,438
Office equipment	70,804	29,706	-	100,510
Vehicles	1,003,581	19,813	110,770	912,624
Total capital assets, being depreciated	2,282,043	151,319	110,770	2,322,592

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE D—CAPITAL ASSETS—Continued

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Governmental activities:—Continued				
Less accumulated depreciation for:				
Land improvements	\$ 45,168	\$ 12,810	\$ -	\$ 57,978
Buildings and improvements	388,178	21,772	-	409,950
Equipment	116,611	6,601	-	123,212
Office equipment	70,804	3,628	-	74,432
Vehicles	731,590	38,975	110,770	659,795
Total accumulated depreciation	<u>1,352,351</u>	<u>83,786</u>	<u>110,770</u>	<u>1,325,367</u>
Total capital assets, being depreciated, net	<u>929,692</u>	<u>67,533</u>	<u>-</u>	<u>997,225</u>
Capital assets, net	<u>\$ 1,169,315</u>	<u>\$ 67,533</u>	<u>\$ 9,913</u>	<u>\$ 1,226,935</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 22,560	\$ -	\$ 22,560
Business-type activities:				
Capital assets, being depreciated:				
Utility systems	8,317,082	-	-	8,317,082
Equipment	201,955	-	-	201,955
Buildings	18,613	-	-	18,613
Total capital assets, being depreciated	<u>8,537,650</u>	<u>-</u>	<u>-</u>	<u>8,537,650</u>
Less accumulated depreciation:				
Utility systems	6,579,048	91,616	-	6,670,664
Equipment	181,832	7,060	-	188,892
Buildings	4,420	466	-	4,886
Total accumulated depreciation	<u>6,765,300</u>	<u>99,142</u>	<u>-</u>	<u>6,864,442</u>
Total capital assets being depreciated, net	<u>1,772,350</u>	<u>(99,142)</u>	<u>-</u>	<u>1,673,208</u>
Capital assets, net	<u>\$ 1,772,350</u>	<u>\$ (76,582)</u>	<u>\$ -</u>	<u>\$ 1,695,768</u>
Government activities:				
Depreciation expense was charged to functions as follows:				
General government				\$ 28,133
Public safety				30,011
Public works				13,994
Culture and recreation				<u>11,648</u>
				<u>\$ 83,786</u>
Business-type activities:				
Depreciation expense was charged to functions as follows:				
Sewer				<u>\$ 99,142</u>

Construction commitments:

At June 30, 2005, the Township had entered into an agreement for engineering services. Below is a summary of the agreement.

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining</u>
Sewer	Sewer system expansion	\$22,560	\$50,940

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE E—ACCESS RIGHTS

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Sewer Fund				
Access rights (3-7 years)	\$ 279,548	\$ 15,061	\$ -	\$ 294,609
Less accumulated amortization	<u>(209,135)</u>	<u>(20,113)</u>	<u>-</u>	<u>(229,248)</u>
Access rights, net of accumulated Amortization	<u>\$ 70,413</u>	<u>\$ (5,052)</u>	<u>\$ -</u>	<u>\$ 65,361</u>

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances, caused by normal operation, is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Fire Fund	\$ 21,142
General Fund	Sewer Fund	<u>17,779</u>
		<u>\$ 38,921</u>

The General Fund transferred \$42,845 to the Fire Fund to subsidize operations.

NOTE G—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, 2005.

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>	<u>Due within one year</u>
Governmental activities:					
Compensated absences	\$ 31,130	\$ 36,838	\$ 37,522	\$ 30,446	\$ 15,223
Business-type activities:					
General obligations bond	514,808	64,794	118,682	460,920	156,000
Compensated absences	<u>3,247</u>	<u>57,130</u>	<u>57,120</u>	<u>3,257</u>	<u>3,257</u>
Business-type activity long-term liabilities	<u>\$ 518,055</u>	<u>\$ 121,924</u>	<u>\$ 175,802</u>	<u>\$ 464,177</u>	<u>\$ 159,257</u>
Governmental activities:					
Compensated absences				\$ 30,446	
Business-type activities:					
General obligation bonds:					
\$428,906 Muskegon County Wastewater Management Number One Refunding Bond of 2002; due in annual installments of \$152,124 to \$156,307 through July 2008; interest at 2.5%				\$ 460,920	
Compensated absences				<u>3,257</u>	
				<u>\$ 464,177</u>	

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local units, including Egelston Township, was amended to provide financial relief to the County's largest industrial user. Under terms of the amendment, the allocation of debt service charged to each local unit user will increase. The Sewer Fund's total debt obligation and annual payments on that obligation will increase by about 15 percent. The financial impact on the Township in 2005 was \$4,553. This bond will be fully retired in 2008. Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows. Payments on these issues will increase for all local units, including the Township, by about 43 percent. The financial impact on the Township in 2005 was \$14,855.

The Township was in compliance in all material respects with all the revenue bond ordinances at June 30, 2005.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2005 follows:

Year ending June 30	Business-type activities	
	Principal	Interest
2006	\$ 156,000	\$ 23,446
2007	152,489	15,249
2008	<u>152,431</u>	<u>7,606</u>
Total	<u>\$ 460,920</u>	<u>\$ 46,301</u>

NOTE H—DESIGNATED FUND EQUITY

Unreserved net assets designated for specific purposes are as follows:

Sewer Fund

Designated for future expenditures	\$ 500,000
Undesignated	<u>1,633,732</u>
	<u>\$ 2,133,732</u>

Unreserved fund balance designated for specific purposes are as follows:

General Fund

Designated for road improvements	\$ 30,000
Designated for park improvements	172,000
Designated for equipment replacement	150,000
Designated for building improvements	40,000
Designated for cemetery improvements	60,000
Designated for library improvements	50,000
Designated for other expenditures	<u>65,000</u>
	<u>\$ 567,000</u>

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE I—OTHER INFORMATION

1. 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.

2. 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.

The Township is currently in negotiation with the firefighter's union regarding wages and benefits retroactive to July 1, 2003. The Township has accrued in the Fire Fund a reasonable estimate of costs.

Egelston Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE J—RETIREMENT PLAN

1. Defined Contribution Pension 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 15 percent of the employees' gross earnings. Participants are not required to contribute to the plan. The Township contributed \$90,068 during the year ended June 30, 2005.

NOTE K—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 63 percent of General Fund revenues.

NOTE L—SUBSEQUENT YEAR INFORMATION

On August 15, 2005 the Township entered into the Muskegon County Wastewater Management System – Number One Series 2005 Bond Contract, which also includes the other thirteen municipalities in Muskegon County. The entire amount of the bond is \$17,500,000 and the Township is responsible for 3.59% of the entire bond, to be paid back over 40 years.

On October 1, 2005 the Township entered into a contract with two other municipalities and Muskegon County to acquire and construct wastewater systems. The entire amount of the bond is not to exceed \$29,000,000 and the Township is responsible for 13.8% of the entire bond, to be paid back over 40 years. The Township also entered into a bond anticipation note of \$900,000 in order to defray the costs of construction and other costs prior to the issuance of the bonds to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

Egelston Township
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2005

	Budgeted Amounts			Variance with final budget- Positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 252,349	\$ 257,983	\$ 247,383	\$ (10,600)
Licenses and permits	85,275	122,623	122,795	172
Intergovernmental revenue - state	785,202	846,847	796,718	(50,129)
Charges for services	18,400	23,360	22,640	(720)
Investment earnings	8,000	8,000	27,298	19,298
Other	3,560	21,760	39,927	18,167
Total revenues	1,152,786	1,280,573	1,256,761	(23,812)
EXPENDITURES				
Current				
General government				
Township board	18,000	18,346	18,265	81
Supervisor	42,300	41,954	39,717	2,237
Elections	7,900	9,877	13,922	(4,045)
Board of review	2,800	2,800	2,746	54
Clerk	80,172	78,195	76,821	1,374
Treasurer	80,022	80,022	79,060	962
Assessor	44,000	44,000	41,874	2,126
Township hall	74,208	58,796	52,045	6,751
Board of appeals	3,100	3,100	2,406	694
Cemetery	23,561	21,560	21,409	151
Professional services	28,800	35,654	35,652	2
Office clerk	54,142	50,534	50,226	308
Maintenance	96,512	104,545	101,584	2,961
Public safety				
Inspection department	106,324	99,824	98,456	1,368
Sheriff	49,785	49,306	49,008	298
Public works				
Landfill	12,200	23,490	23,403	87
Roads	500	972	971	1
Community and economic development				
Planning	5,600	15,635	15,273	362
Culture and recreation				
Recreation programs and park maintenance	42,602	38,239	31,452	6,787
Library	24,435	24,435	21,512	2,923
Other governmental functions				
Payroll benefits	311,192	283,362	274,367	8,995
Insurance	47,100	40,610	40,132	478
Other	37,900	46,343	33,546	12,797
Capital outlay	59,500	81,056	105,212	(24,156)
Total expenditures	1,252,655	1,252,655	1,229,059	23,596
Excess of revenues over (under) expenditures	(99,869)	27,918	27,702	(216)
OTHER FINANCING USES				
Transfers out	-	(83,199)	(42,845)	40,354
Net change in fund balance	\$ (99,869)	\$ (55,281)	(15,143)	\$ 40,138
Fund balance at July 1, 2004			1,540,496	
Fund balance at June 30, 2005			\$ 1,525,353	

Egelston Township
BUDGETARY COMPARISON SCHEDULE
 Fire Fund
 For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 446,786	\$ 447,775	\$ 447,009	\$ (766)
Charges for services	15,000	17,637	17,636	(1)
Other	300	39,036	39,035	(1)
Total revenues	462,086	504,448	503,680	(768)
EXPENDITURES				
Current				
Public safety	411,373	526,545	510,331	16,214
Capital outlay	50,000	18,740	36,194	(17,454)
Total expenditures	461,373	545,285	546,525	(1,240)
Excess of revenues over (under) expenditures	713	(40,837)	(42,845)	(2,008)
OTHER FINANCING SOURCES				
Transfers in	-	83,199	42,845	(40,354)
Net change in fund balance	\$ 713	\$ 42,362	-	\$ (42,362)
Fund balance at July 1, 2004			4,000	
Fund balance at June 30, 2005			\$ 4,000	

Egelston Township
BUDGETARY COMPARISON SCHEDULE
 Street Light Fund
 For the year ended June 30, 2005

	Budgeted Amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 76,260	\$ 76,313	\$ 76,058	\$ (255)
Investment earnings	<u>3,500</u>	<u>6,074</u>	<u>6,074</u>	<u>-</u>
Total revenues	79,760	82,387	82,132	(255)
EXPENDITURES				
Current				
Public works	<u>102,227</u>	<u>102,227</u>	<u>93,093</u>	<u>9,134</u>
Net change in fund balance	<u>\$ (22,467)</u>	<u>\$ (19,840)</u>	(10,961)	<u>\$ 8,879</u>
Fund balance at July 1, 2004			<u>362,081</u>	
Fund balance at June 30, 2005			<u>\$ 351,120</u>	

OTHER SUPPLEMENTAL INFORMATION

Egelston Township
BALANCE SHEET
 Other Governmental Funds
 June 30, 2005

	Total other governmental funds	Special Revenue Funds	
		Festival	Water Alliance
ASSETS			
Cash and investments	\$ 25,678	\$ 19,781	\$ 5,897
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 14	\$ 14	\$ -
Fund balances			
Unreserved	25,664	19,767	5,897
Total liabilities and fund balances	\$ 25,678	\$ 19,781	\$ 5,897

Egelston Township
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Governmental Funds
 For the year ended June 30, 2005

	Total other governmental funds	Special Revenue Funds	Water Alliance
		Festival	
EXPENDITURES			
Current			
Culture and recreation	\$ 170	\$ 170	\$ -
Other governmental functions	15	-	15
Total expenditures	185	170	15
Net change in fund balances	(185)	(170)	(15)
Fund balances at July 1, 2004	25,849	19,937	5,912
Fund balances at June 30, 2005	\$ 25,664	\$ 19,767	\$ 5,897

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 5, 2005

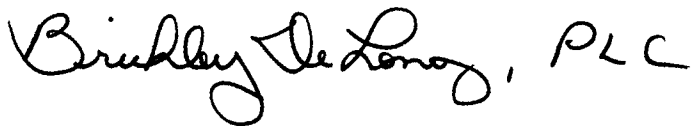
Township Board
Egelston Township
Muskegon, Michigan

In planning and performing our audit of the financial statements of Egelston Township for the year ended June 30, 2005, we considered its internal control 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. 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 Egelston Township's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

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 believe recommendations 1 and 2 on the attached summary are material weaknesses.

This report is intended solely for the information of the Township Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESSES

Cash Receipts Procedures

Recommendation 1: Cash receipts should be deposited in a timely manner.

During our detail testing of cash receipts and bank reconciliations, we noted that receipts were not being timely deposited.

The timely deposit of receipts will reduce the possibility of cash receipts being misplaced or misappropriated.

Property Taxes

Recommendation 2: Property taxes collected at lock box locations should be posted in a timely manner.

During our audit testing, we noted that property taxes collected at lock box locations were not being timely posted.

The timely posting of property tax collections would enable the Township to more accurately track collections and eliminate reconciling items on its bank reconciliations.

REPORTABLE CONDITIONS

Electronic Transfers

Recommendation 3: Electronic transfers should be reviewed and approved by an appropriate member of management and be cancelled upon payment preferably with the use of a “paid” block stamp.

During our testing, we noted that electronic transfers were not reviewed and approved by an appropriate member of management and that the supporting documentation was not cancelled upon payment.

A review of the supporting documentation of electronic transfers by appropriate personnel would reduce the risk of a cash disbursement being incorrect. The use of a “paid” block stamp would reduce the possibility of duplicate payment.

Recommendation 4: The bank deposits should be reconciled to the receipts register daily.

During our testing, we noted that there were differences between the receipt register and the bank deposits. We also noted that the Township did not have receipts for certain payments received and that payment was not posted to these accounts, until the customer returned to complain.

The timely posting of receipts while the customer is present would enable the Township to create more accurate receipt reports and help eliminate differences between receipt registers and bank deposits.

REPORTABLE CONDITIONS—CONTINUED

General

Recommendation 5: All journal entries should have documented approval by an appropriate Township official.

During our testing, we noted that documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with documented approval of all journal entries would reduce the possibility of an inaccurate journal entry being made.