

Egelston Township  
Muskegon County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2010

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, 2010. 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 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 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.

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.

**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 supplementary 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, 2010, the Township's net assets from governmental activities totaled \$3,337,351 (48%) and \$3,584,704 (52%) from business-type activities, creating a total government-wide net assets total of \$6,922,055.

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 \$1,744,333. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$3,584,704 in net assets and \$1,505,350 in unrestricted net assets.

Current assets for the governmental activities decreased by approximately \$234,000 from the prior year and capital assets increased by approximately \$285,000 as the Township purchased a new fire tanker and backhoe. Noncurrent liabilities increased as the Township recorded a liability for unfunded other postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* which the Township implemented this year.

Capital assets for the business-type activities decreased by approximately \$168,000 because depreciation exceeded capital asset additions for the year.

**Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current assets and other assets	\$ 2,285,979	\$ 2,520,388	\$ 1,573,662	\$ 1,642,016	\$ 3,859,641	\$ 4,162,404
Capital assets	1,339,097	1,054,576	3,735,500	3,903,531	5,074,597	4,958,107
Total assets	3,625,076	3,574,964	5,309,162	5,545,547	8,934,238	9,120,511
Current liabilities	138,719	153,574	101,312	140,058	240,031	293,632
Noncurrent liabilities	149,006	-	1,623,146	1,655,780	1,772,152	1,655,780
Total liabilities	287,725	153,574	1,724,458	1,795,838	2,012,183	1,949,412
Net assets						
Invested in capital assets, net of related debt	1,339,097	1,054,576	2,079,354	2,230,255	3,418,451	3,284,831
Restricted	253,921	374,201	-	-	253,921	374,201
Unrestricted	1,744,333	1,992,613	1,505,350	1,519,454	3,249,683	3,512,067
Total net assets	\$ 3,337,351	\$ 3,421,390	\$ 3,584,704	\$ 3,749,709	\$ 6,922,055	\$ 7,171,099

# 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 assets.

### Change in Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues						
Charges for services	\$ 153,017	\$ 165,260	\$ 482,749	\$ 465,945	\$ 635,766	\$ 631,205
Operating grants and contributions	3,149	6,486	-	-	3,149	6,486
Capital grants and contributions	3,725	-	22,750	142,720	26,475	142,720
General revenues						
Property taxes	990,760	958,498	-	-	990,760	958,498
Franchise fees	73,629	67,811	-	-	73,629	67,811
Grants and contributions not restricted	628,344	706,481	-	-	628,344	706,481
Unrestricted investment earnings	28,145	42,451	21,198	20,976	49,343	63,427
Miscellaneous	31,138	33,324	-	-	31,138	33,324
Gain on sale of capital assets	6,676	7,651	-	-	6,676	7,651
<b>Total revenues</b>	<b>1,918,583</b>	<b>1,987,962</b>	<b>526,697</b>	<b>629,641</b>	<b>2,445,280</b>	<b>2,617,603</b>
Expenses:						
General government	804,721	811,522	-	-	804,721	811,522
Public safety	962,366	886,503	-	-	962,366	886,503
Public works	162,631	148,853	-	-	162,631	148,853
Community and economic development	5,774	10,254	-	-	5,774	10,254
Culture and recreation	67,130	73,386	-	-	67,130	73,386
Sewer Fund	-	-	691,702	761,124	691,702	761,124
<b>Total expenses</b>	<b>2,002,622</b>	<b>1,930,518</b>	<b>691,702</b>	<b>761,124</b>	<b>2,694,324</b>	<b>2,691,642</b>
Change in net assets	(84,039)	57,444	(165,005)	(131,483)	(249,044)	(74,039)
Net assets - Beginning	3,421,390	3,363,946	3,749,709	3,881,192	7,171,099	7,245,138
<b>Net assets - Ending</b>	<b>\$ 3,337,351</b>	<b>\$ 3,421,390</b>	<b>\$ 3,584,704</b>	<b>\$ 3,749,709</b>	<b>\$ 6,922,055</b>	<b>\$ 7,171,099</b>

At year-end, on June 30, 2010, net assets decreased by \$84,039 in governmental activities and decreased by \$165,005 in business-type activities. This resulted in an overall decrease of \$249,044 government wide.

### **Governmental Activities**

Charges for services declined by approximately \$12,000 due to less permit activity as the poor economy slowed building activities as well as fewer burials in the cemetery. Property tax revenue increased approximately \$32,000 as the Township's fire millage was renewed which eliminated the headlee rollback on the millage levied. Grants and contributions not restricted decreased by approximately \$78,000 due to revenue sharing cuts. Investment earnings decreased approximately \$14,000 due to lower rates of return on cash and investments as well as lower balances.

The implementation of GASB 45 caused higher expenses, particularly for general government and public safety functions. General government was able to offset these higher expenses due to higher election costs for the national election in the prior fiscal year, repairs and maintenance to the caretaker house in the prior year, lower legal fees, and an ongoing effort to control expenses in a down economy.

### **Business-type Activities**

Charges for services increased by approximately \$17,000 due to an increase in the number of users of the Township system resulting from the completion of the Township's sewer expansion project and a 30% rate hike midway through the fiscal year. These increases were offset by a significant decrease in sales to a large Township user that was engaged in cleanup of a contamination site in the prior fiscal year. Similarly, capital grants and contributions decreased as most individuals able to connect to the Township's recent sewer expansion have now connected. Sewer Fund expenses decreased approximately \$70,000 due to lower flow to the County resulting less usage from the aforementioned large user and lower repairs and maintenance expenses.

### **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 2010 fiscal year, the governmental funds reported a combined fund balance of \$2,183,682. This number represents the fund balance of \$1,908,654 in the General Fund, \$34,282 in the Fire Fund, \$219,639 in the Street Light Fund, and \$21,107 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 \$61,882. Of the remaining unreserved fund balances, \$1,085,000 is designated for various improvements.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year 2010, the unreserved General Fund fund balance was \$1,877,054 and the total General Fund fund balance was \$1,908,654. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 181% of the General Fund expenditures. The ratio in the previous year was 162%.

**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 \$165,005.

### **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 as the Township originally budgeted cable franchise fees from an old contract.
- The intergovernmental revenues – State budget was increased as the Township originally budgeted too conservatively for revenue sharing cuts from the State of Michigan.
- The township hall expenditures budget was decreased as planned improvements were deferred.
- The payroll benefits expenditures budget was decreased as the Township originally anticipated a much higher increase in premiums and an employee left the Township and was not replaced further reducing insurance costs.
- The transfers out budget was decreased as the Fire Fund needed a smaller capital and operating subsidy than originally budgeted.

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

- Payroll benefits expenditures were under the final budget by \$37,978 as the savings in this area were larger than expected.
- Transfers out were under the final budget by \$86,709 as the actual transfer to the Fire Fund to subsidize capital purchases and operations was less than expected.

**Capital Assets Administration**

The Township's investment in capital assets for its governmental and business-type activities as of June 30, 2010 totaled \$5,074,597 (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 a backhoe, fire tanker, and fire chief's vehicle.

	<b>Capital Assets (Net of Accumulated Depreciation)</b>					
	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Land	\$ 229,710	\$ 229,710	\$ 7,934	\$ 7,934	\$ 237,644	\$ 237,644
Land improvements	201,437	219,731	-	-	201,437	219,731
Buildings and improvements	353,400	376,560	11,401	11,866	364,801	388,426
Utility systems	-	-	2,124,065	2,223,799	2,124,065	2,223,799
Equipment	111,278	79,378	67,463	71,404	178,741	150,782
Office equipment	434	3,615	8,957	11,644	9,391	15,259
Vehicles	442,838	145,582	-	-	442,838	145,582
Access rights	-	-	1,515,680	1,576,884	1,515,680	1,576,884
<b>Total</b>	<b>\$ 1,339,097</b>	<b>\$ 1,054,576</b>	<b>\$ 3,735,500</b>	<b>\$ 3,903,531</b>	<b>\$ 5,074,597</b>	<b>\$ 4,958,107</b>

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

**Long-Term Debt**

At the end of the fiscal year, the Township had total outstanding debt of \$1,726,473 consisting of general obligation bonds and compensated absences.

	<b>Outstanding Debt</b>					
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligations						
bonds	\$ -	\$ -	\$ 1,656,146	\$ 1,686,780	\$ 1,656,146	\$ 1,686,780
Compensated absences	36,422	35,680	3,259	4,013	39,681	39,693
Other postemployment						
benefits	149,006	-	-	-	149,006	-
<b>Total</b>	<b>\$ 185,428</b>	<b>\$ 35,680</b>	<b>\$ 1,659,405</b>	<b>\$ 1,690,793</b>	<b>\$ 1,844,833</b>	<b>\$ 1,726,473</b>

The Township's total debt increased by \$118,360 during the fiscal year. The increase came from the implementation of GASB 45 as referred to earlier which required the Township to show unfunded actuarially computed annual required contributions into its retiree healthcare plan as a long-term liability.

Additional information on the Township's long-term debt can be found in Note G 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 comprised over 78% of the General Fund revenue sources. In fiscal 2011, state revenue sharing is budgeted to decrease by approximately 2% and property tax revenues are budgeted to remain flat. A larger decrease in revenue sharing is possible depending on actions taken by the State of Michigan.

The Township is expecting operating expenditures to increase by the rate of inflation in the coming year. The Township has not budgeted for any significant capital outlay in the next fiscal year. As part of its budget, the Township has appropriated approximately \$235,000 to transfer to the Fire Fund to support fire operations.

The Township is planning on having a bond millage election in February 2011 for a new fire station. The expected cost of the new fire station would be approximately \$2.5 million if the millage passes.

The Township implemented GASB 45 for retiree healthcare during the year ended June 30, 2010. The Township is planning on setting up a trust in accordance with GASB 45 during the upcoming fiscal year and partially funding the annual required contribution.

### **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 8, 2010

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, 2010, 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, 2010, 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.

The management's discussion and analysis and required supplementary information on pages i - viii and 27 - 30 are not a required part of the basic financial statements but are supplementary 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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 fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund 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 De Long, P.C.*

Egelston Township  
**STATEMENT OF NET ASSETS**  
June 30, 2010

	ASSETS		
	Governmental activities	Business-type activities	Total
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 1,999,502	\$ 1,184,025	\$ 3,183,527
Receivables	21,363	196,369	217,732
Due from other governmental units	203,232	-	203,232
Prepaid items	61,882	5,009	66,891
Total current assets	2,285,979	1,385,403	3,671,382
<b>NONCURRENT ASSETS</b>			
Capital assets, net			
Nondepreciable	229,710	7,934	237,644
Depreciable	1,109,387	3,727,566	4,836,953
Bond issue costs, net	-	13,020	13,020
Special assessments receivable	-	175,239	175,239
Total noncurrent assets	1,339,097	3,923,759	5,262,856
Total assets	3,625,076	5,309,162	8,934,238
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	101,102	46,640	147,742
Due to other governmental units	1,195	18,413	19,608
Bonds and other obligations, due within one year	36,422	36,259	72,681
Total current liabilities	138,719	101,312	240,031
<b>NONCURRENT LIABILITIES</b>			
Bonds and other obligations, less amounts due within one year	149,006	1,623,146	1,772,152
Total liabilities	287,725	1,724,458	2,012,183
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,339,097	2,079,354	3,418,451
Restricted for:			
Fire operations	34,282	-	34,282
Street lights	219,639	-	219,639
Unrestricted	1,744,333	1,505,350	3,249,683
Total net assets	\$ 3,337,351	\$ 3,584,704	\$ 6,922,055

The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

<i><b>Functions/Programs</b></i>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Governmental activities							
General government	\$ 804,721	\$ 41,045	\$ 2,399	\$ 3,725	\$ (757,552)	\$ -	\$ (757,552)
Public safety	962,366	66,328	-	-	(896,038)	-	(896,038)
Public works	162,631	-	-	-	(162,631)	-	(162,631)
Community and economic development	5,774	-	-	-	(5,774)	-	(5,774)
Culture and recreation	<u>67,130</u>	<u>45,644</u>	<u>750</u>	<u>-</u>	<u>(20,736)</u>	<u>-</u>	<u>(20,736)</u>
Total governmental activities	2,002,622	153,017	3,149	3,725	(1,842,731)	-	(1,842,731)
Business-type activities							
Sewer	<u>691,702</u>	<u>482,749</u>	<u>-</u>	<u>22,750</u>	<u>-</u>	<u>(186,203)</u>	<u>(186,203)</u>
Total government	<u>\$ 2,694,324</u>	<u>\$ 635,766</u>	<u>\$ 3,149</u>	<u>\$ 26,475</u>	(1,842,731)	(186,203)	(2,028,934)
General revenues							
Property taxes, levied for							
General purposes					314,876	-	314,876
Specific purposes					675,884	-	675,884
Franchise fees					73,629	-	73,629
Grants and contributions not restricted to specific programs					628,344	-	628,344
Unrestricted investment earnings					28,145	21,198	49,343
Miscellaneous					31,138	-	31,138
Gain on sale of capital assets					<u>6,676</u>	<u>-</u>	<u>6,676</u>
Total general revenues					<u>1,758,692</u>	<u>21,198</u>	<u>1,779,890</u>
Change in net assets					(84,039)	(165,005)	(249,044)
Net assets at July 1, 2009					<u>3,421,390</u>	<u>3,749,709</u>	<u>7,171,099</u>
Net assets at June 30, 2010					<u>\$ 3,337,351</u>	<u>\$ 3,584,704</u>	<u>\$ 6,922,055</u>

The accompanying notes are an integral part of this statement.

Egelston Township  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2010

	General Fund	Fire Fund	Street Light Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>					
Cash and investments	\$ 1,747,384	\$ -	\$ 231,011	\$ 21,107	\$ 1,999,502
Accounts receivable	20,303	1,060	-	-	21,363
Due from other governmental units	203,232	-	-	-	203,232
Due from other funds	-	40,904	-	-	40,904
Prepaid items	31,600	30,282	-	-	61,882
Total assets	\$ 2,002,519	\$ 72,246	\$ 231,011	\$ 21,107	\$ 2,326,883
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 11,000	\$ 6,898	\$ 11,372	\$ -	\$ 29,270
Accrued liabilities	41,150	30,681	-	-	71,831
Due to other governmental units	811	385	-	-	1,196
Due to other funds	40,904	-	-	-	40,904
Total liabilities	93,865	37,964	11,372	-	143,201
Fund balances					
Reserved for prepaid items	31,600	30,282	-	-	61,882
Unreserved					
Designated, reported in General Fund	1,085,000	-	-	-	1,085,000
Undesignated, reported in					
General Fund	792,054	-	-	-	792,054
Special revenue funds	-	4,000	219,639	21,107	244,746
Total fund balances	1,908,654	34,282	219,639	21,107	2,183,682
Total liabilities and fund balances	\$ 2,002,519	\$ 72,246	\$ 231,011	\$ 21,107	\$ 2,326,883

The accompanying notes are an integral part of this statement.

Egelston Township  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2010

Total fund balance—governmental funds		\$ 2,183,682
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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	\$ 2,958,531	
Accumulated depreciation	<u>(1,619,434)</u>	1,339,097

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

Compensated absences	(36,422)	
Other postemployment benefits	<u>(149,006)</u>	<u>(185,428)</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>3,337,351</u></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, 2010

	General Fund	Fire Fund	Street Light Fund	Other governmental funds	Total governmental funds
<b>REVENUES</b>					
Property taxes	\$ 314,876	\$ 579,329	\$ 96,555	\$ -	\$ 990,760
Licenses and permits	126,522	-	-	-	126,522
Intergovernmental revenues - State	632,069	-	-	-	632,069
Charges for services	25,095	18,210	-	-	43,305
Investment earnings	24,183	-	3,806	156	28,145
Other	88,671	2,435	-	-	91,106
Total revenues	1,211,416	599,974	100,361	156	1,911,907
<b>EXPENDITURES</b>					
Current					
General government	522,136	-	-	-	522,136
Public safety	69,884	621,118	-	-	691,002
Public works	3,568	-	137,933	-	141,501
Community and economic development	3,676	-	-	-	3,676
Culture and recreation	49,215	-	-	-	49,215
Other governmental functions	336,511	-	-	5,912	342,423
Capital outlay	51,638	335,804	-	-	387,442
Total expenditures	1,036,628	956,922	137,933	5,912	2,137,395
Excess of revenues over (under) expenditures	174,788	(356,948)	(37,572)	(5,756)	(225,488)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of capital assets	6,676	-	-	-	6,676
Transfers in	-	280,152	-	-	280,152
Transfers out	(280,152)	-	-	-	(280,152)
Total other financing sources (uses)	(273,476)	280,152	-	-	6,676
Net change in fund balances	(98,688)	(76,796)	(37,572)	(5,756)	(218,812)
Fund balances at July 1, 2009	2,007,342	111,078	257,211	26,863	2,402,494
Fund balances at June 30, 2010	\$ 1,908,654	\$ 34,282	\$ 219,639	\$ 21,107	\$ 2,183,682

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, 2010

Net change in fund balances—total governmental funds \$ (218,812)

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	\$ (102,921)	
Capital outlay	<u>387,442</u>	284,521

Compensated absences and other postemployment benefits are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

(149,748)

Change in net assets of governmental activities

\$ (84,039)

The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF NET ASSETS**  
 Proprietary Fund  
 June 30, 2010

ASSETS

	Business-type Activities - <u>Enterprise Fund</u> <u>Sewer</u>
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 1,184,025
Receivables	
Accounts	176,869
Special assessments	19,500
Prepaid items	<u>5,009</u>
Total current assets	1,385,403
<b>NONCURRENT ASSETS</b>	
Capital assets	
Land	7,934
Buildings	18,613
Utility system	9,277,247
Equipment	212,965
Vehicles	31,556
Access rights	1,674,280
Less accumulated depreciation and amortization	<u>(7,487,095)</u>
Net capital assets	3,735,500
Bond issuance costs, net	13,020
Special assessments receivable	<u>175,239</u>
Total noncurrent assets	<u>3,923,759</u>
Total assets	5,309,162
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	22,632
Accrued liabilities	24,008
Due to other governmental units	18,413
Bonds and other obligations, due within one year	<u>36,259</u>
Total current liabilities	101,312
<b>NONCURRENT LIABILITIES</b>	
Bonds and other obligations, less amounts due within one year	<u>1,623,146</u>
Total liabilities	1,724,458
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,079,354
Unrestricted	<u>1,505,350</u>
Total net assets	<u>\$ 3,584,704</u>

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, 2010

	Business-type Activities - <u>Enterprise Fund</u> <u>Sewer</u>
<b>REVENUES</b>	
Charges for services	\$ 482,749
<b>OPERATING EXPENSES</b>	
Administration	29,783
Operations	407,063
Depreciation and amortization	<u>177,627</u>
Total operating expenses	<u>614,473</u>
Operating loss	(131,724)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	21,198
Connection fees	22,750
Interest expense	<u>(77,229)</u>
Total nonoperating revenues (expenses)	<u>(33,281)</u>
Change in net assets	(165,005)
Net assets at July 1, 2009	<u>3,749,709</u>
Net assets at June 30, 2010	<u>\$ 3,584,704</u>

The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF CASH FLOWS**  
 Proprietary Fund  
 For the year ended June 30, 2010

	Business-type Activities - <u>Enterprise fund</u> <u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 480,017
Receipts from interfund services provided	3,023
Payments to suppliers	(311,462)
Payments to employees	(166,208)
	5,370
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Connection fees	51,266
Purchases of capital assets	(9,113)
Principal paid on capital debt	(31,390)
Interest paid on capital debt	(76,473)
	(65,710)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Investment earnings	21,198
	(39,142)
Cash and investments at July 1, 2009	1,223,167
Cash and investments at June 30, 2010	\$ 1,184,025
<b>Reconciliation of operating loss to net cash provided by operating activities</b>	
Operating loss	\$ (131,724)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization expense	177,627
Change in assets and liabilities	
Receivables, net	291
Prepaid items	(78)
Accounts payable	7,245
Accrued liabilities	27
Due to other governmental units	(48,018)
	5,370
Net cash provided by operating activities	\$ 5,370

The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2010

	<u>Agency funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 1,003
Receivables	<u>2,607</u>
Total assets	<u><u>\$ 3,610</u></u>
<b>LIABILITIES</b>	
Due to other governmental units	\$ 2,607
Other liabilities	<u>1,003</u>
Total liabilities	<u><u>\$ 3,610</u></u>

The accompanying notes are an integral part of this statement.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**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 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.

***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.

***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 FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

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

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 FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***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.

***Assets, Liabilities and Net Assets or Equity***

**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.

**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 FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**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 2009 state taxable value for real/personal property of the Township totaled approximately \$189,840,000. The ad valorem taxes levied consisted of 1.1803, 3.0 and 0.5 mills for the Township's general operations, fire department operations, and street lights, respectively. These amounts are recognized respectively in the General Fund, Fire Fund, and Street Light Fund.

**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.

**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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated 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

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**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.

**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.

**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.

**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.

**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. 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.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2010

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

- 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.

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2010, the Township had the following investments:

<b>Investment Type</b>	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Moody's</u>	<u>Percent</u>
External investment pool	\$ 273,491	46	AAA	46.2 %
Negotiable certificates of deposit	117,156	159	not rated	19.8
Overnight repurchase agreements	<u>201,323</u>	<u>1</u>	AAA	<u>34</u>
Total fair value	<u>\$ 591,970</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>53</u>		

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.

**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, 2010, \$1,161,848 of the Township's bank balance of \$2,609,851 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, 2010

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 229,710	\$ -	\$ -	\$ 229,710
 <b>Capital assets, being depreciated:</b>				
Land improvements	340,109	-	-	340,109
Buildings and improvements	877,910	-	-	877,910
Equipment	258,011	51,638	-	309,649
Office equipment	47,747	-	-	47,747
Vehicles	852,582	335,804	34,980	1,153,406
Total capital assets, being depreciated	<u>2,376,359</u>	<u>387,442</u>	<u>34,980</u>	<u>2,728,821</u>
 <b>Less accumulated depreciation:</b>				
Land improvements	120,378	18,294	-	138,672
Buildings and improvements	501,350	23,160	-	524,510
Equipment	178,633	19,738	-	198,371
Office equipment	44,132	3,181	-	47,313
Vehicles	707,000	38,548	34,980	710,568
Total accumulated depreciation	<u>1,551,493</u>	<u>102,921</u>	<u>34,980</u>	<u>1,619,434</u>
Total capital assets, being depreciated, net	<u>824,866</u>	<u>284,521</u>	<u>-</u>	<u>1,109,387</u>
Capital assets, net	<u>\$ 1,054,576</u>	<u>\$ 284,521</u>	<u>\$ -</u>	<u>\$ 1,339,097</u>

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE D—CAPITAL ASSETS—Continued**

	<u>Balance</u> <u>July 1,</u> <u>2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30,</u> <u>2010</u>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 7,934	\$ -	\$ -	\$ 7,934
 <b>Capital assets, being depreciated:</b>				
Buildings and improvements	18,613	-	-	18,613
Utility systems	9,277,247	-	-	9,277,247
Equipment	203,854	9,113	2	212,965
Vehicles	31,556	-	-	31,556
Access rights	<u>1,674,280</u>	<u>-</u>	<u>-</u>	<u>1,674,280</u>
Total capital assets, being depreciated	11,205,550	9,113	2	11,214,661
 <b>Less accumulated depreciation:</b>				
Buildings and improvements	6,747	465	-	7,212
Utility systems	7,053,448	99,734	-	7,153,182
Equipment	132,450	13,054	2	145,502
Vehicles	19,912	2,687	-	22,599
Access rights	<u>97,396</u>	<u>61,204</u>	<u>-</u>	<u>158,600</u>
Total accumulated depreciation	<u>7,309,953</u>	<u>177,144</u>	<u>2</u>	<u>7,487,095</u>
Total capital assets, being depreciated, net	<u>3,895,597</u>	<u>(168,031)</u>	<u>-</u>	<u>3,727,566</u>
Capital assets, net	<u>\$ 3,903,531</u>	<u>\$ (168,031)</u>	<u>\$ -</u>	<u>\$ 3,735,500</u>

Depreciation expense has been charged to functions as follows:

**Governmental activities:**

General government	\$ 36,583
Public safety	36,353
Public works	14,859
Culture and recreation	<u>15,126</u>
	<u>\$ 102,921</u>

**Business-type activities:**

Sewer	<u>\$ 177,144</u>
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Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2010

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<b>Business-type activities:</b>				
Bond issuance costs	\$ 14,952	\$ -	\$ -	\$ 14,952
Less accumulated amortization	1,449	483	-	1,932
Bond issuance costs, net	\$ 13,503	\$ (483)	\$ -	\$ 13,020

**Amortization**

Amortization expense has been charged to sewer.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2010 is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Fund	\$ <u>40,904</u>

The interfund was to provide working capital for the Fire Fund.

**Interfund transfers:**

The composition of interfund transfers as of June 30, 2010 consisted of the General Fund transferring \$208,152 to the Fire Fund for capital purposes.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2010

**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, 2010.

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within one year
<b>Governmental activities:</b>					
Compensated absences	\$ 35,680	\$ 52,951	\$ 52,209	\$ 36,422	\$ 36,422
Other postemployment benefits	-	181,077	32,071	149,006	-
Governmental activity long-term liabilities	<u>\$ 35,680</u>	<u>\$ 234,028</u>	<u>\$ 84,280</u>	<u>\$ 185,428</u>	<u>\$ 36,422</u>
<b>Business-type activities:</b>					
General obligations bond	\$ 1,686,780	-	\$ 30,634	\$ 1,656,146	\$ 33,000
Compensated absences	4,013	10,492	11,246	3,259	3,259
Business-type activity long-term liabilities	<u>\$ 1,690,793</u>	<u>\$ 10,492</u>	<u>\$ 41,880</u>	<u>\$ 1,659,405</u>	<u>\$ 36,259</u>
<b>Business-type activities:</b>					
<b>General obligation bonds:</b>					
\$1,700,000 Muskegon County Wastewater Management - Number One Bond of 2006 due in annual installments of approximately \$33,000 to \$108,000 through November 2036; interest at rates varying from 4.25% to 5%				\$ 1,668,610	
Less bond discount				<u>(12,464)</u>	
				1,656,146	
Compensated absences				<u>3,259</u>	
				<u>\$ 1,659,405</u>	

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, 2010 was approximately \$488,000. The Township is unaware of any circumstances that would cause a shortfall in the near future.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2010

**NOTE G—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

The Township was in compliance in all material respects with all bond ordinances at June 30, 2010.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2010 follows:

Year ending <u>June 30,</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 33,000	\$ 75,128
2012	34,000	73,715
2013	36,000	72,241
2014	37,000	70,696
2015	38,000	69,090
2016-2020	220,000	318,847
2021-2025	275,000	265,954
2026-2030	346,000	196,922
2031-2035	440,000	107,005
2036-2038	<u>209,610</u>	<u>10,635</u>
	<u>\$ 1,668,610</u>	<u>\$ 1,260,233</u>

**NOTE H—DESIGNATED FUND BALANCE**

Unreserved fund balances designated for specific purposes as of June 30, 2010 were as follows:

General Fund	
Designated for parking lot improvements	\$ 45,000
Designated for park improvements	60,000
Designated for equipment replacement	25,000
Designated for building/library improvements	25,000
Designated for cemetery improvements	30,000
Designated for fire department/community center	450,000
Designated for other capital expenditures	<u>450,000</u>
	<u>\$ 1,085,000</u>
Sewer Fund	
Designated for future capital expenditures	<u>\$ 500,000</u>

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE I—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.

**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.

**NOTE J—PENSION PLANS**

**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 15 percent of the employees' gross earnings. Participants are not required to contribute to the plan. The Township contributed \$94,097 during the year ended June 30, 2010.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2010

**NOTE K—OTHER POST-EMPLOYMENT BENEFITS**

*Plan Description.* The Township administers a single-employer defined benefit healthcare plan (Retiree Healthcare Plan). 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. The Retiree Healthcare Plan does not issue a publicly available financial report and a legal trust has not been established for the Plan.

*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, 2010, the Township contributed \$32,071 to the Retiree Healthcare Plan which was entirely for current year premiums.

*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	\$	181,077
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Net OPEB cost		181,077
Payments made to or on behalf of retirees		(32,071)
Contributions made to OPEB trust		-
Increase in net OPEB obligation		149,006
Net OPEB obligation at beginning of year		-
Net OPEB obligation at end of year	\$	149,006

**Trend Information**

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$ 181,077	17.7 %	\$ 149,006

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2010

**NOTE K—OTHER POST-EMPLOYMENT BENEFITS—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 2004 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 2009 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 2.5 percent.

A discount rate of 4.4 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, 2009 was 30 years.

*Funded Status and Progress.* As of June 30, 2009, the most recent valuation date, the Retiree Healthcare Plan was not funded. The actuarial accrued liability for benefits was approximately \$1,392,000, and the actuarial value of assets was none, resulting in an unfunded actuarial liability (UAAL) of approximately \$1,392,000. The covered payroll (annual payroll of active employees covered by the Retiree Healthcare Plan) was approximately \$817,000, and the ratio of the UAAL to the covered payroll was 170 percent.

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 L—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 52 percent of General Fund revenues.

**REQUIRED SUPPLEMENTARY INFORMATION**

Egelston Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended June 30, 2010

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 312,636	\$ 315,268	\$ 314,876	\$ (392)
Licenses and permits	77,700	122,773	126,522	3,749
Intergovernmental revenue - State	593,315	631,954	632,069	115
Charges for services	23,900	24,356	25,095	739
Investment earnings	24,000	25,500	24,183	(1,317)
Other	73,792	92,471	88,671	(3,800)
Total revenues	1,105,343	1,212,322	1,211,416	(906)
<b>EXPENDITURES</b>				
Current				
General government				
Township board	19,250	19,250	18,625	625
Supervisor	45,550	45,550	42,881	2,669
Elections	12,500	12,500	7,585	4,915
Board of review	4,200	3,550	2,364	1,186
Clerk	89,350	89,350	86,707	2,643
Treasurer	80,175	80,175	77,009	3,166
Assessor	60,098	59,698	58,761	937
Township hall	65,400	51,400	42,991	8,409
Board of appeals	1,950	1,150	300	850
Cemetery	29,050	35,160	30,583	4,577
Professional services	30,000	20,500	20,261	239
Office clerk	18,030	15,030	12,678	2,352
Maintenance	128,790	127,451	121,391	6,060
Public safety				
Inspection department	83,746	76,946	69,884	7,062
Public works				
Landfill	4,195	4,195	3,568	627
Roads	1,000	1,000	-	1,000
Community and economic development				
Planning	9,000	6,200	3,676	2,524
Culture and recreation				
Recreation programs and park maintenance	45,300	44,068	35,892	8,176
Library	10,735	15,077	13,323	1,754
Other governmental functions				
Payroll benefits	358,589	317,093	279,115	37,978
Insurance	46,300	46,300	44,572	1,728
Other	22,304	16,304	12,824	3,480
Capital outlay	4,000	51,638	51,638	-
Total expenditures	1,169,512	1,139,585	1,036,628	102,957
Excess of revenues over (under) expenditures	(64,169)	72,737	174,788	102,051
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	2,000	6,676	6,676	-
Transfers out	(440,157)	(366,861)	(280,152)	86,709
Total other financing sources (uses)	(438,157)	(360,185)	(273,476)	86,709
Net change in fund balance	\$ (502,326)	\$ (287,448)	(98,688)	\$ 188,760
Fund balance at July 1, 2009			2,007,342	
Fund balance at June 30, 2010			\$ 1,908,654	

Egelston Township  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 Fire Fund  
 For the year ended June 30, 2010

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 556,600	\$ 580,441	\$ 579,329	\$ (1,112)
Charges for services	19,750	19,750	18,210	(1,540)
Other	1,000	3,256	2,435	(821)
Total revenues	577,350	603,447	599,974	(3,473)
<b>EXPENDITURES</b>				
Current				
Public safety	697,533	698,213	621,118	77,095
Capital outlay	319,974	343,324	335,804	7,520
Total expenditures	1,017,507	1,041,537	956,922	84,615
Excess of revenues over (under) expenditures	(440,157)	(438,090)	(356,948)	81,142
<b>OTHER FINANCING SOURCES</b>				
Transfers in	440,157	366,861	280,152	(86,709)
Net change in fund balance	\$ -	\$ (71,229)	(76,796)	\$ (5,567)
Fund balance at July 1, 2009			111,078	
Fund balance at June 30, 2010			\$ 34,282	

Egelston Township  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 Street Light Fund  
 For the year ended June 30, 2010

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 96,633	\$ 96,633	\$ 96,555	\$ (78)
Investment earnings	4,500	4,500	3,806	(694)
Total revenues	101,133	101,133	100,361	(772)
<b>EXPENDITURES</b>				
Current				
Public works	131,500	140,500	137,933	2,567
Net change in fund balance	\$ (30,367)	\$ (39,367)	(37,572)	\$ 1,795
Fund balance at July 1, 2009			257,211	
Fund balance at June 30, 2010			\$ 219,639	

Egelston Township  
 Required Supplementary Information  
**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS PLAN**  
 For the year ended June 30, 2010

*(Dollar amounts in thousands)*

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
6/30/09	\$ -	\$ 1,392	\$ 1,392	- %	\$ 817	170 %

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

**OTHER SUPPLEMENTAL INFORMATION**

Egelston Township  
**COMBINING BALANCE SHEET**  
 Other Governmental Funds  
 June 30, 2010

	Total other governmental funds	Special Revenue	
		Festival	Water Alliance
<b>ASSETS</b>			
Cash and investments	\$ <u>21,107</u>	\$ <u>21,107</u>	\$ <u>-</u>
 <b>FUND BALANCES</b>			
Unreserved	<u>21,107</u>	<u>21,107</u>	<u>-</u>
Total fund balances	\$ <u><u>21,107</u></u>	\$ <u><u>21,107</u></u>	\$ <u><u>-</u></u>

Egelston Township  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**  
Other Governmental Funds  
For the year ended June 30, 2010

	Total other governmental funds	Special Revenue	
		Festival	Water Alliance
<b>REVENUES</b>			
Investment earnings	\$ 156	\$ 156	\$ -
<b>EXPENDITURES</b>			
Current			
Other governmental functions	5,912	-	5,912
Net change in fund balances	(5,756)	156	(5,912)
Fund balances at July 1, 2009	26,863	20,951	5,912
Fund balances at June 30, 2010	\$ 21,107	\$ 21,107	\$ -

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 8, 2010

Township Board  
Egelston Township  
Muskegon, Michigan

In planning and performing our audit of the financial statements of Egelston Township as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Egelston Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the attached deficiency in Egelston Township's internal control to be a significant deficiency.

This communication is intended solely for the information and use of the Township Board, management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley De Long, P.C.*

## **SIGNIFICANT DEFICIENCY**

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Township should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

# BRICKLEY DELONG

## CERTIFIED PUBLIC ACCOUNTANTS

October 8, 2010

To the Township Board  
Egelston Township

We have audited the financial statements of Egelston Township for the year ended June 30, 2010, and have issued our report thereon dated October 08, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you during our conference on July 1, 2010. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Egelston Township are described in Note A to the financial statements. During fiscal year 2009/2010, Egelston Township adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which established new standards for measurement, recognition, and display of other postemployment benefits in the financial statements. See Note K of the "Notes to Financial Statements" for additional information. No other new accounting policies were adopted and the application of existing policies was not changed during fiscal 2009/2010. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statement were:

Management's estimate of the compensated absences liability is based on unused compensated absences at year end and past experience. We evaluated the key factors and assumptions used to develop the compensated absences liability estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## BRICKLEY DELONG

Township Board  
Egelston Township  
October 8, 2010  
Page 2

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 08, 2010.

### *Management Consultations with Other Independent Accountants*

In some cases, management of organizations may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations by the management of Egelston Township with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Township Board and management of Egelston Township and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Brickley De Long, P.C.*