

Egelston Township  
Muskegon County, Michigan

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

Year ended June 30, 2008

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, 2008. 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**

The Township completed sewer expansion on the western edge of the Township which has made sewer service available to certain residents on Apple Avenue and Brooks Road. The total cost for the project was approximately \$2,350,000. To finance the project, the Township issued bonds in the amount of \$1,700,000 and paid for the rest of the project with available cash in the Sewer Fund.

### **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, 2008, the Township's net assets from governmental activities totaled \$3,363,946 (46%) and \$3,881,192 (54%) from business-type activities, creating a total government-wide net assets total of \$7,245,138.

# Egelston Township

## Management's Discussion and Analysis

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 \$1,905,827. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$3,881,192 in net assets and \$1,499,862 in unrestricted net assets.

Current assets for the governmental activities increased by approximately \$178,000 from the prior year due primarily to higher cash and investments reflecting an increase in net assets. Capital assets are down by approximately \$43,000 because depreciation exceeded capital asset additions for the year.

Current assets and other assets for the business-type activities decreased by approximately \$738,000 and current liabilities decreased by approximately \$801,000 due to the payment of prior year liabilities related to sewer expansion projects. Invested in capital assets net of related debt increased and unrestricted assets decreased as the Township spent resources to construct assets that were built for the Township's benefit but are owned by other governmental entities and are thus recorded as other assets on the Township's financial statements.

### Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Current assets and other assets	\$ 2,416,209	\$ 2,238,616	\$ 3,208,834	\$ 3,947,075	\$ 5,625,043	\$ 6,185,691
Capital assets	1,094,106	1,137,297	2,415,273	2,394,424	3,509,379	3,531,721
Total assets	3,510,315	3,375,913	5,624,107	6,341,499	9,134,422	9,717,412
Current liabilities	130,024	119,747	55,567	856,438	185,591	976,185
Noncurrent liabilities	16,345	16,382	1,687,348	1,700,570	1,703,693	1,716,952
Total liabilities	146,369	136,129	1,742,915	2,557,008	1,889,284	2,693,137
Net assets						
Invested in capital assets, net of related debt	1,094,106	1,137,297	2,381,330	1,509,553	3,475,436	2,646,850
Restricted	364,013	347,070	-	-	364,013	347,070
Unrestricted	1,905,827	1,755,417	1,499,862	2,274,938	3,405,689	4,030,355
Total net assets	\$ 3,363,946	\$ 3,239,784	\$ 3,881,192	\$ 3,784,491	\$ 7,245,138	\$ 7,024,275

# 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 Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues						
Charges for services	\$ 185,353	\$ 167,618	\$ 422,162	\$ 388,448	\$ 607,515	\$ 556,066
Operating grants and contributions	-	18,472	-	-	-	18,472
Capital grants and contributions	-	2,832	231,982	39,900	231,982	42,732
General revenues						
Property taxes	908,729	879,024	-	-	908,729	879,024
Franchise fees	59,894	41,674	-	-	59,894	41,674
Grants and contributions not restricted	744,170	744,170	-	-	744,170	744,170
Unrestricted investment earnings	90,744	86,487	73,860	111,719	164,604	198,206
Miscellaneous	16,308	13,508	-	-	16,308	13,508
Gain on sale of capital assets	20,100	-	551	-	20,651	-
Total revenues	<u>2,025,298</u>	<u>1,953,785</u>	<u>728,555</u>	<u>540,067</u>	<u>2,753,853</u>	<u>2,493,852</u>
Expenses:						
General government	777,789	745,709	-	-	777,789	745,709
Public safety	840,228	876,183	-	-	840,228	876,183
Public works	188,547	164,681	-	-	188,547	164,681
Community and economic development	9,417	14,083	-	-	9,417	14,083
Culture and recreation	85,155	81,757	-	-	85,155	81,757
Sewer Fund	-	-	631,854	576,611	631,854	576,611
Total expenses	<u>1,901,136</u>	<u>1,882,413</u>	<u>631,854</u>	<u>576,611</u>	<u>2,532,990</u>	<u>2,459,024</u>
Change in net assets	124,162	71,372	96,701	(36,544)	220,863	34,828
Net assets - Beginning	<u>3,239,784</u>	<u>3,168,412</u>	<u>3,784,491</u>	<u>3,821,035</u>	<u>7,024,275</u>	<u>6,989,447</u>
Net assets - Ending	<u>\$ 3,363,946</u>	<u>\$ 3,239,784</u>	<u>\$ 3,881,192</u>	<u>\$ 3,784,491</u>	<u>\$ 7,245,138</u>	<u>\$ 7,024,275</u>

At year-end, on June 30, 2008, net assets increased by \$124,162 and \$96,701 in governmental activities and business-type activities, respectively. This resulted in an overall increase of \$220,863 government wide.

### Governmental Activities

Capital grants and contributions and operating grants and contributions are zero this year as the Township had grants from FEMA for safety equipment and also a tire cleanup grant in the prior year. Property tax revenue increased approximately \$30,000 due to higher taxable values. Gain on sale of capital assets of \$20,100 is primarily from the sale of some Township land.

General government expenses are up by approximately \$32,000 due to higher assessing costs and small increases in several other Township departments. Public safety expenses are down by approximately \$26,000 because of retro-wage costs in the prior year resulting from a new union contract in the Fire Department. Public works expenses are up by approximately \$24,000 primarily due to street light improvements.

### Business-type Activities

Capital grants and contributions are higher by approximately \$191,000 due to connection fees resulting from the Township's completion of its sewer expansion project. Unrestricted interest rates increased by approximately \$38,000 as Sewer fund cash and investments were spent to complete the sewer expansion project. Sewer Fund expenses in the Sewer Fund increased by approximately \$55,000 as capital assets completed in the sewer expansion project begin to depreciate.

### 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 2008 fiscal year, the governmental funds reported a combined fund balance of \$2,302,531. This number represents the fund balance of \$1,917,646 in the General Fund, \$79,855 in the Fire Fund, \$278,246 in the Street Light Fund, and \$26,784 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 \$69,611. Of the remaining unreserved fund balances, \$1,242,000 is designated for various improvements.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year 2008, the unreserved General Fund fund balance was \$1,882,035 and the total General Fund fund balance was \$1,917,646. 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 155% of the General Fund expenditures. The ratio in the previous year was 146%.

**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 increased by \$96,701.

### General Fund Budget

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

- Investment earnings revenues were amended from \$31,000 to \$68,393 because of a higher return on investments due to higher interest rates.
- Proceeds from the sale of capital assets was amended to \$20,100 because the Township sold some land.

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

- Office clerk expenditures were under the final budget by \$25,439 because a clerical staff person left the Township and the position was not filled.
- Recreation programs and park maintenance expenditures were over the final budget by \$15,296 because of park improvements that were made and not budgeted such as fencing at Beals Park and new concrete trash bins.
- Payroll benefits expenditures were under the final budget by \$25,481 because of lower than expected pension and other benefits as a result of the departure of a clerical staff person.
- Other expenditures were under the final budget by \$21,291 because of lower than expected expenditures.
- Capital outlay expenditures were under the final budget by \$100,053 because the purchase of a backhoe and cemetery improvements was deferred.
- Transfers out were under budget by \$56,541 as a budgeted transfer to subsidize operations in the Fire Fund was not necessary.

# Egelston Township

## Management's Discussion and Analysis

### Capital Assets Administration

The Township's investment in capital assets for its governmental and business-type activities as of June 30, 2008 totaled \$3,509,379 (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 mower, leaf vacuum system, dump trailer, some sidewalk replacement, leaf site expansion, an easement on Apple Avenue, lift station improvements, and some other sewer system improvements.

#### Capital Assets (Net of Accumulated Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Land	\$ 229,710	\$ 229,710	\$ 3,514	\$ -	\$ 233,224	\$ 229,710
Land improvements	212,510	194,195	-	-	212,510	194,195
Buildings and improvements	392,309	415,106	12,331	12,796	404,640	427,902
Utility systems	-	-	2,331,891	2,342,775	2,331,891	2,342,775
Equipment	94,888	96,126	67,537	38,853	162,425	134,979
Office equipment	10,424	17,233	-	-	10,424	17,233
Vehicles	154,265	184,927	-	-	154,265	184,927
Total	\$ <u>1,094,106</u>	\$ <u>1,137,297</u>	\$ <u>2,415,273</u>	\$ <u>2,394,424</u>	\$ <u>3,509,379</u>	\$ <u>3,531,721</u>

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 \$2,383,497 consisting of general obligation bonds and compensated absences. The general obligation debt of \$348,760 is backed by the full-faith and credit of the Township.

#### Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligations						
bonds	\$ -	\$ -	\$ 1,686,017	\$ 1,828,242	\$ 1,686,017	\$ 1,828,242
Compensated absences	<u>32,691</u>	<u>32,763</u>	<u>2,662</u>	<u>1,139</u>	<u>35,353</u>	<u>33,902</u>
Total	\$ <u>32,691</u>	\$ <u>32,763</u>	\$ <u>1,688,679</u>	\$ <u>1,829,381</u>	\$ <u>1,721,370</u>	\$ <u>1,862,144</u>

The Township's total debt decreased by \$140,774 during the fiscal year. This decrease was due to normal scheduled repayments.

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 76% of the General Fund revenue sources. In fiscal 2009, state revenue sharing is expected to decrease by approximately 4% and property tax revenues are expected to grow by approximately 4%.

The Township is expecting operating expenditures to increase by the rate of inflation in the coming year. The position of fire chief continues to be budgeted for in fiscal 2009 as the Township works to determine how best to fill the position which has been vacant for a couple of years now. The Township has committed approximately \$312,000 to purchase a new tanker for the fire department of which approximately \$145,000 will be expended in fiscal 2009 and the remainder in fiscal 2010. Two trucks are also budgeted to be purchased for the department of public works for approximately \$35,000. No other significant capital items are planned at this time. As part of its budget, the Township has appropriated approximately \$57,000 to transfer to the Fire Fund to support fire operations.

### **Requests for Information**

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

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

November 7, 2008

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, 2008, 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, 2008, 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 budgetary comparison information on pages i - viii and 27 - 29 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.



Egelston Township  
**STATEMENT OF NET ASSETS**  
June 30, 2008

	ASSETS		
	Governmental activities	Business-type activities	Total
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 2,186,040	\$ 1,276,970	\$ 3,463,010
Receivables	17,162	145,779	162,941
Due from other governmental units	143,396	-	143,396
Prepaid items	<u>69,611</u>	<u>4,182</u>	<u>73,793</u>
Total current assets	2,416,209	1,426,931	3,843,140
<b>NONCURRENT ASSETS</b>			
Capital assets, net			
Nondepreciable	229,710	3,514	233,224
Depreciable	864,396	2,411,759	3,276,155
Access rights, net	-	1,638,088	1,638,088
Bond issue costs, net	-	13,986	13,986
Special assessments receivable	<u>-</u>	<u>129,829</u>	<u>129,829</u>
Total noncurrent assets	<u>1,094,106</u>	<u>4,197,176</u>	<u>5,291,282</u>
Total assets	3,510,315	5,624,107	9,134,422
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	112,818	29,734	142,552
Due to other governmental units	860	24,502	25,362
Bonds and other obligations, due within one year	<u>16,346</u>	<u>1,331</u>	<u>17,677</u>
Total current liabilities	130,024	55,567	185,591
<b>NONCURRENT LIABILITIES</b>			
Bonds and other obligations, less amounts due within one year	<u>16,345</u>	<u>1,687,348</u>	<u>1,703,693</u>
Total liabilities	<u>146,369</u>	<u>1,742,915</u>	<u>1,889,284</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,094,106	2,381,330	3,475,436
Restricted for:			
Fire operations	79,855	-	79,855
Street lights	278,246	-	278,246
Muskegon Regional Water Alliance	5,912	-	5,912
Unrestricted	<u>1,905,827</u>	<u>1,499,862</u>	<u>3,405,689</u>
Total net assets	<u>\$ 3,363,946</u>	<u>\$ 3,881,192</u>	<u>\$ 7,245,138</u>

The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

<i>Functions/Programs</i>	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities						
General government	\$ 777,789	\$ 43,387	\$ -	\$ (734,402)	\$ -	\$ (734,402)
Public safety	840,228	93,795	-	(746,433)	-	(746,433)
Public works	188,547	-	-	(188,547)	-	(188,547)
Community and economic development	9,417	-	-	(9,417)	-	(9,417)
Culture and recreation	85,155	48,171	-	(36,984)	-	(36,984)
Total governmental activities	1,901,136	185,353	-	(1,715,783)	-	(1,715,783)
Business-type activities						
Sewer	631,854	422,162	231,982	-	22,290	22,290
Total government	\$ 2,532,990	\$ 607,515	\$ 231,982	(1,715,783)	22,290	(1,693,493)
General revenues						
Property taxes, levied for						
General purposes				303,061	-	303,061
Specific purposes				605,668	-	605,668
Franchise fees				59,894	-	59,894
Grants and contributions not restricted to specific programs				744,170	-	744,170
Unrestricted investment earnings				90,744	73,860	164,604
Miscellaneous				16,308	-	16,308
Gain on sale of capital assets				20,100	551	20,651
Total general revenues				1,839,945	74,411	1,914,356
Change in net assets				124,162	96,701	220,863
Net assets at July 1, 2007				3,239,784	3,784,491	7,024,275
Net assets at June 30, 2008				\$ 3,363,946	\$ 3,881,192	\$ 7,245,138

The accompanying notes are an integral part of this statement.

Egelston Township  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2008

	General Fund	Fire Fund	Street Light Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>					
Cash and investments	\$ 1,822,891	\$ 58,103	\$ 278,241	\$ 26,805	\$ 2,186,040
Accounts receivable	17,125	32	5	-	17,162
Due from other governmental units	128,080	15,316	-	-	143,396
Prepaid items	35,611	34,000	-	-	69,611
Total assets	\$ 2,003,707	\$ 107,451	\$ 278,246	\$ 26,805	\$ 2,416,209
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 43,379	\$ 4,757	\$ -	\$ 21	\$ 48,157
Accrued liabilities	41,822	22,839	-	-	64,661
Due to other governmental units	860	-	-	-	860
Total liabilities	86,061	27,596	-	21	113,678
Fund balances					
Reserved for prepaid items	35,611	34,000	-	-	69,611
Unreserved					
Designated, reported in General Fund	1,242,000	-	-	-	1,242,000
Undesignated, reported in					
General Fund	640,035	-	-	-	640,035
Special revenue funds	-	45,855	278,246	26,784	350,885
Total fund balances	1,917,646	79,855	278,246	26,784	2,302,531
Total liabilities and fund balances	\$ 2,003,707	\$ 107,451	\$ 278,246	\$ 26,805	\$ 2,416,209

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, 2008

Total fund balance—governmental funds		\$ 2,302,531
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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	\$ 2,568,922	
Accumulated depreciation	<u>(1,474,816)</u>	1,094,106

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		<u>(32,691)</u>
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Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 3,363,946</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, 2008

	General Fund	Fire Fund	Street Light Fund	Other governmental funds	Total governmental funds
<b>REVENUES</b>					
Property taxes	\$ 303,061	\$ 517,587	\$ 88,081	\$ -	\$ 908,729
Licenses and permits	133,346	-	-	-	133,346
Intergovernmental revenues - State	744,170	-	-	-	744,170
Charges for services	33,039	16,434	-	-	49,473
Investment earnings	80,303	-	9,802	639	90,744
Other	78,278	398	61	-	78,737
	1,372,197	534,419	97,944	639	2,005,199
<b>EXPENDITURES</b>					
Current					
General government	545,156	-	-	-	545,156
Public safety	152,481	490,411	-	-	642,892
Public works	11,915	-	160,856	-	172,771
Community and economic development	7,383	-	-	-	7,383
Culture and recreation	70,420	-	-	199	70,619
Other governmental functions	366,800	-	-	-	366,800
Capital outlay	52,397	-	-	-	52,397
	1,206,552	490,411	160,856	199	1,858,018
Excess of revenues over (under) expenditures	165,645	44,008	(62,912)	440	147,181
<b>OTHER FINANCING SOURCES</b>					
Proceeds from sale of capital assets	20,100	-	-	-	20,100
Net change in fund balances	185,745	44,008	(62,912)	440	167,281
Fund balances at July 1, 2007	1,731,901	35,847	341,158	26,344	2,135,250
Fund balances at June 30, 2008	\$ 1,917,646	\$ 79,855	\$ 278,246	\$ 26,784	\$ 2,302,531

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, 2008

Net change in fund balances—total governmental funds \$ 167,281

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	\$ (95,588)	
Capital outlay	<u>52,397</u>	(43,191)

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.

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Change in net assets of governmental activities		\$ <u><u>124,162</u></u>
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The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF NET ASSETS**  
 Proprietary Fund  
 June 30, 2008

ASSETS

		Business-type Activities - <u>Enterprise Fund</u> <u>Sewer</u>
<b>CURRENT ASSETS</b>		
Cash and investments	\$	1,276,970
Receivables		
Accounts		130,779
Special assessments		15,000
Prepaid items		<u>4,182</u>
Total current assets		1,426,931
<b>NONCURRENT ASSETS</b>		
Capital assets		
Land		3,514
Buildings		18,613
Utility system		9,277,247
Equipment		223,913
Less accumulated depreciation		<u>(7,108,014)</u>
Net capital assets		2,415,273
Access rights, net		1,638,088
Bond issuance costs, net		13,986
Special assessments receivable		<u>129,829</u>
Total noncurrent assets		4,197,176
Total assets		5,624,107
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable		6,981
Accrued liabilities		22,753
Due to other governmental units		24,502
Bonds and other obligations, due within one year		<u>1,331</u>
Total current liabilities		55,567
<b>NONCURRENT LIABILITIES</b>		
Bonds and other obligations, less amounts due within one year		<u>1,687,348</u>
Total liabilities		<u>1,742,915</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		2,381,330
Unrestricted		<u>1,499,862</u>
Total net assets	\$	<u><u>3,881,192</u></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, 2008

	Business-type Activities - <u>Enterprise Fund</u> <u>Sewer</u>
REVENUES	
Charges for services	\$ 422,162
OPERATING EXPENSES	
Administration	32,414
Operations	346,755
Depreciation and amortization	<u>175,431</u>
Total operating expenses	<u>554,600</u>
Operating loss	(132,438)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	73,860
Connection fees	231,982
Gain on disposal of capital assets	551
Interest expense	<u>(77,254)</u>
Total nonoperating revenues (expenses)	<u>229,139</u>
Change in net assets	96,701
Net assets at July 1, 2007	<u>3,784,491</u>
Net assets at June 30, 2008	<u><u>\$ 3,881,192</u></u>

The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF CASH FLOWS**  
Proprietary Funds  
For the year ended June 30, 2008

	Business-type Activities - <u>Enterprise fund</u> <u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 414,186
Receipts from interfund services provided	2,617
Payments to suppliers	(218,130)
Payments to employees	<u>(153,893)</u>
Net cash provided by operating activities	44,780
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Connection fees	140,055
Purchases of capital assets and access rights	(1,750,984)
Principal paid on capital debt	(31,661)
Interest paid on capital debt	(91,237)
Proceeds from sales of capital assets	<u>551</u>
Net cash used for capital and related financing activities	(1,733,276)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Investment earnings	<u>73,860</u>
Net decrease in cash and investments	(1,614,636)
Cash and investments at July 1, 2007	<u>2,891,606</u>
Cash and investments at June 30, 2008	<u><u>\$ 1,276,970</u></u>
<b>Reconciliation of operating loss to net cash provided by operating activities</b>	
Operating loss	\$ (132,438)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization expense	175,431
Change in assets and liabilities	
Receivables, net	(5,359)
Prepaid items	(732)
Accounts payable	1,285
Accrued liabilities	(1,952)
Due to other governmental units	<u>8,545</u>
Net cash provided by operating activities	<u><u>\$ 44,780</u></u>

The accompanying notes are an integral part of this statement.

Egelston Township  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
 Fiduciary Funds  
 June 30, 2008

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 7,076
Receivables	3,693
Total assets	\$ 10,769
 <b>LIABILITIES</b>	
Due to other governmental units	\$ 3,693
Other liabilities	7,076
Total liabilities	\$ 10,769

The accompanying notes are an integral part of this statement.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**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—CONTINUED  
June 30, 2008

**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—CONTINUED**  
June 30, 2008

**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—CONTINUED  
June 30, 2008

**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 2007 state taxable value for real/personal property of the Township totaled approximately \$178,465,000. The ad valorem taxes levied consisted of 1.1897, 2.8619 and 0.4869 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—CONTINUED**  
June 30, 2008

**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.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**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.
- 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.

**Excess of Expenditures Over Appropriations**

During the year ended June 30, 2008, actual expenditures exceeded appropriations for recreation programs and park maintenance by \$15,296 in the General Fund. These overexpenditures were funded with available fund balance.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2008, 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	\$ 269,324	50	AAA	29.9 %
Negotiable certificates of deposit	116,027	123	not rated	12.9
Overnight repurchase agreements	<u>513,961</u>	<u>1</u>	AAA	<u>57.2</u>
Total fair value	<u>\$ 899,312</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>31</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. More than 5 percent of the Township’s investments are in a negotiable certificates of deposit issued by Mercantile Bank. This investment is 11.6 percent of the Township’s investments and is held in the General Fund.

**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, 2008, \$1,809,288 of the Township's bank balance of \$2,483,075 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—CONTINUED**  
June 30, 2008

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2008
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 229,710	\$ -	\$ -	\$ 229,710
<b>Capital assets, being depreciated:</b>				
Land improvements	280,524	34,445	-	314,969
Buildings and improvements	870,650	-	-	870,650
Equipment	240,549	17,952	-	258,501
Office equipment	47,747	-	-	47,747
Vehicles	912,624	-	65,279	847,345
Total capital assets, being depreciated	<u>2,352,094</u>	<u>52,397</u>	<u>65,279</u>	<u>2,339,212</u>
<b>Less accumulated depreciation:</b>				
Land improvements	86,329	16,130	-	102,459
Buildings and improvements	455,544	22,797	-	478,341
Equipment	144,423	19,190	-	163,613
Office equipment	30,514	6,809	-	37,323
Vehicles	727,697	30,662	65,279	693,080
Total accumulated depreciation	<u>1,444,507</u>	<u>95,588</u>	<u>65,279</u>	<u>1,474,816</u>
Total capital assets, being depreciated, net	<u>907,587</u>	<u>(43,191)</u>	<u>-</u>	<u>864,396</u>
Capital assets, net	<u>\$ 1,137,297</u>	<u>\$ (43,191)</u>	<u>\$ -</u>	<u>\$ 1,094,106</u>

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE D—CAPITAL ASSETS—Continued**

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ -	\$ 3,514	\$ -	\$ 3,514
 <b>Capital assets, being depreciated:</b>				
Utility systems	9,178,412	98,835	-	9,277,247
Equipment	226,504	39,653	42,244	223,913
Buildings and improvements	18,613	-	-	18,613
	<u>9,423,529</u>	<u>138,488</u>	<u>42,244</u>	<u>9,519,773</u>
Total capital assets, being depreciated				
 <b>Less accumulated depreciation:</b>				
Utility systems	6,835,637	109,719	-	6,945,356
Equipment	187,651	10,969	42,244	156,376
Buildings and improvements	5,817	465	-	6,282
	<u>7,029,105</u>	<u>121,153</u>	<u>42,244</u>	<u>7,108,014</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>2,394,424</u>	<u>17,335</u>	<u>-</u>	<u>2,411,759</u>
Capital assets, net	<u>\$ 2,394,424</u>	<u>\$ 20,849</u>	<u>\$ -</u>	<u>\$ 2,415,273</u>

Depreciation expense has been charged to functions as follows:

<b>Governmental activities:</b>	
General government	\$ 38,055
Public safety	32,864
Public works	9,905
Culture and recreation	14,764
	<u>\$ 95,588</u>
 <b>Business-type activities:</b>	
Sewer	<u>\$ 121,153</u>

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2008

**NOTE E—ACCESS RIGHTS**

Access rights activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<b>Business-type activities</b>				
Access rights	\$ 850,663	\$ 929,236	\$ 105,619	\$ 1,674,280
Less accumulated amortization	<u>88,016</u>	<u>53,795</u>	<u>105,619</u>	<u>36,192</u>
Access rights, net	<u>\$ 762,647</u>	<u>\$ 875,441</u>	<u>\$ -</u>	<u>\$ 1,638,088</u>

**Amortization**

Amortization expense has been charged to sewer.

**NOTE F—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<b>Business-type activities:</b>				
Bond issuance costs	\$ 14,952	\$ -	\$ -	\$ 14,952
Less accumulated amortization	<u>483</u>	<u>483</u>	<u>-</u>	<u>966</u>
Bond issuance costs, net	<u>\$ 14,469</u>	<u>\$ (483)</u>	<u>\$ -</u>	<u>\$ 13,986</u>

**Amortization**

Amortization expense has been charged to sewer.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 June 30, 2008

**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, 2008.

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
<b>Governmental activities:</b>					
Compensated absences	\$ 32,763	\$ 46,919	\$ 46,991	\$ 32,691	\$ 16,346
<b>Business-type activities:</b>					
General obligations bond	\$ 1,828,242	\$ -	\$ 142,225	\$ 1,686,017	\$ -
Compensated absences	1,139	8,576	7,053	2,662	1,331
Business-type activity long-term liabilities	\$ 1,829,381	\$ 8,576	\$ 149,278	\$ 1,688,679	\$ 1,331
<b>General obligation bonds:</b>					
\$1,700,000 Muskegon County Wastewater Management - Number One Bond of 2006 due in annual installments of approximately \$31,000 to \$108,000 through November 2036; interest at rates varying from 4.25%				\$ 1,700,000	
Less bond discount				(13,983)	
				1,686,017	
Compensated absences				2,662	
				<u>\$ 1,688,679</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, 2008 was approximately \$625,000. The Township is unaware of any circumstances that would cause a shortfall in the near future.

The Township was in compliance in all material respects with all bond ordinances at June 30, 2008.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE G—LONG-TERM DEBT—Continued**

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

Annual debt service requirements to maturity for debt outstanding as of June 30, 2008 follows:

Year ending June 30,	Business-type activities	
	Principal	Interest
2009	\$ -	\$ 77,156
2010	31,000	76,489
2011	33,000	75,128
2012	34,000	73,715
2013	36,000	72,241
2014-2018	201,000	336,734
2019-2023	252,000	288,751
2024-2028	315,000	226,690
2029-2033	399,000	145,948
2034-2038	399,000	41,026
	<u>\$ 1,700,000</u>	<u>\$ 1,413,878</u>

**NOTE H—DESIGNATED FUND BALANCE**

Unreserved fund balances designated for specific purposes as of June 30, 2008 were as follows:

General Fund	
Designated for road improvements	\$ 30,000
Designated for park improvements	172,000
Designated for equipment replacement	75,000
Designated for building/library improvements	65,000
Designated for cemetery improvements	60,000
Designated for fire department/community center	550,000
Designated for fire vehicles and equipment	280,000
Designated for other capital expenditures	10,000
	<u>\$ 1,242,000</u>
Sewer Fund	
Designated for future capital expenditures	<u>\$ 500,000</u>

Egelston Township  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2008

**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.

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.

**Post-Retirement Health Care**

The Township has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were 6 retired employees receiving benefits. The Township finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2008, the Township's post-retirement health care cost under the Plan was approximately \$44,000.

Egelston Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**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 \$96,052 during the year ended June 30, 2008.

**NOTE K—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 54 percent of General Fund revenues.

**REQUIRED SUPPLEMENTARY INFORMATION**

Egelston Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended June 30, 2008

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 302,058	\$ 305,850	\$ 303,061	\$ (2,789)
Licenses and permits	113,350	120,488	133,346	12,858
Intergovernmental revenue - State	731,036	731,036	744,170	13,134
Charges for services	25,000	33,159	33,039	(120)
Investment earnings	31,000	68,393	80,303	11,910
Other	74,807	83,189	78,278	(4,911)
Total revenues	1,277,251	1,342,115	1,372,197	30,082
<b>EXPENDITURES</b>				
Current				
General government				
Township board	19,510	19,510	19,099	411
Supervisor	44,800	44,800	40,530	4,270
Elections	12,500	12,500	1,757	10,743
Board of review	3,650	3,650	3,458	192
Clerk	86,733	86,733	83,746	2,987
Treasurer	87,533	87,533	73,721	13,812
Assessor	57,850	57,850	55,158	2,692
Township hall	61,317	61,317	50,300	11,017
Board of appeals	3,000	3,000	1,776	1,224
Cemetery	25,672	27,672	28,932	(1,260)
Professional services	32,000	32,000	32,609	(609)
Office clerk	53,698	53,698	28,259	25,439
Maintenance	125,636	125,636	125,811	(175)
Public safety				
Inspection department	153,002	153,002	152,481	521
Public works				
Landfill	18,695	18,695	11,288	7,407
Roads	1,000	1,000	627	373
Community and economic development				
Planning	14,500	14,500	7,383	7,117
Culture and recreation				
Recreation programs and park maintenance	45,250	45,250	60,546	(15,296)
Library	11,635	11,635	9,874	1,761
Other governmental functions				
Payroll benefits	332,266	332,266	306,785	25,481
Insurance	45,750	45,750	41,206	4,544
Other	40,100	40,100	18,809	21,291
Capital outlay	152,450	152,450	52,397	100,053
Total expenditures	1,428,547	1,430,547	1,206,552	223,995
Excess of revenues over (under) expenditures	(151,296)	(88,432)	165,645	254,077
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	-	20,100	20,100	-
Transfers out	(56,541)	(56,541)	-	56,541
Total other financing sources (uses)	(56,541)	(36,441)	20,100	56,541
Net change in fund balance	\$ (207,837)	\$ (124,873)	185,745	\$ 310,618
Fund balance at July 1, 2007			1,731,901	
Fund balance at June 30, 2008			\$ 1,917,646	

Egelston Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Fire Fund  
For the year ended June 30, 2008

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 523,208	\$ 524,809	\$ 517,587	\$ (7,222)
Charges for services	18,075	18,075	16,434	(1,641)
Other	2,650	2,650	398	(2,252)
Total revenues	543,933	545,534	534,419	(11,115)
<b>EXPENDITURES</b>				
Current				
Public safety	595,079	595,079	490,411	104,668
Capital outlay	5,395	5,395	-	5,395
Total expenditures	600,474	600,474	490,411	110,063
Excess of revenues over (under) expenditures	(56,541)	(54,940)	44,008	98,948
<b>OTHER FINANCING SOURCES</b>				
Transfers in	56,541	56,541	-	(56,541)
Net change in fund balance	\$ -	\$ 1,601	44,008	\$ 42,407
Fund balance at July 1, 2007			35,847	
Fund balance at June 30, 2008			\$ 79,855	

Egelston Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Street Light Fund  
For the year ended June 30, 2008

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 88,791	\$ 88,791	\$ 88,081	\$ (710)
Investment earnings	8,500	9,803	9,802	(1)
Other	-	-	61	61
Total revenues	97,291	98,594	97,944	(650)
<b>EXPENDITURES</b>				
Current				
Public works	102,000	160,857	160,856	1
Total expenditures	102,000	160,857	160,856	1
Net change in fund balance	\$ (4,709)	\$ (62,263)	(62,912)	\$ (649)
Fund balance at July 1, 2007			341,158	
Fund balance at June 30, 2008			\$ 278,246	

**OTHER SUPPLEMENTAL INFORMATION**

Egelston Township  
**COMBINING BALANCE SHEET**  
 Other Governmental Funds  
 June 30, 2008

	Total other governmental funds	Special Revenue	
		Festival	Water Alliance
<b>ASSETS</b>			
Cash and investments	\$ <u>26,805</u>	\$ <u>20,893</u>	\$ <u>5,912</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 21	\$ 21	\$ -
 Fund balances			
Unreserved	<u>26,784</u>	<u>20,872</u>	<u>5,912</u>
Total liabilities and fund balances	\$ <u>26,805</u>	\$ <u>20,893</u>	\$ <u>5,912</u>

Egelston Township  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Other Governmental Funds  
 For the year ended June 30, 2008

	<u>Total other governmental funds</u>	<u>Special Revenue</u>	
		<u>Festival</u>	<u>Water Alliance</u>
REVENUES			
Investment earnings	\$ 639	\$ 639	\$ -
EXPENDITURES			
Current			
Culture and recreation	199	199	-
Net change in fund balances	440	440	-
Fund balances at July 1, 2007	26,344	20,432	5,912
Fund balances at June 30, 2008	\$ 26,784	\$ 20,872	\$ 5,912

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

November 7, 2008

Township Board  
Egelston Township  
Muskegon, Michigan

In planning and performing our audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Egelston Township as of and for the year ended June 30, 2008, 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 Egelston Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Egelston Township's internal control.

*A control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

*A material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

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



## SIGNIFICANT DEFICIENCIES

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 Organization 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.

Recommendation 2: All budget amendments must be made prior to year end.

During our audit, we noted that the Township was amending its budget after year end. This is in violation of Public Act 2 of 1968 and the *Uniform Budget Manual for Local Units of Government* which states that, "There is no authority to amend the budget after year end." Budget amendments should be made before expenditures exceed the budget.

Amending budgets before expenditures exceed the budget and never amending the budget after year end would ensure that the Township is in compliance with State law.

Recommendation 3: Computer system passwords should be restricted and changed on a regular basis.

During our inquiry of management, we noted that not all computers required a login and password.

Requiring logins passwords would reduce the possibility of Township records being compromised and could reduce the possibility of inappropriate personnel having access to restricted files.