TOWNSHIP OF STAR

ANTRIM COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2005

Michigan Dept. of Treasury, Local Government Audit Division
L-3147 (Rev. 3/96)

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type:	Local Government Name:	County
☐ City ☒ Township ☐ Village ☐ Other	**Township of Star**	**Antrim**

Audit Date	Opinion Date	Date Accountant Report Submitted To State:
March 31, 2005	**October 12, 2005**	**December 6, 2005**

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

We affirm that:

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

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

You must check the applicable box for each item below:

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	**Enclosed**	**To Be Forwarded**	**Not Required**
The letter of comments and recommendations.	☒	☐	☐
Reports on individual federal assistance programs (program audits).	☐	☐	☒
Single Audit Reports (ASLGU).	☐	☐	☒

Certified Public Accountant (Firm Name): **KESKINE, COOK, MILLER & ALEXANDER, LLP**

Street Address	City	State	ZIP
100 West First Street	**Gaylord**	**MI**	**49735**

Accountant Signature

Wade J. K.

Township Officials

Supervisor	Richard Steel
Clerk	Marilyn Rypkowski
Treasurer	Scott Brown

Trustees

Kay Ringle

Cecile Woodward

Township of Star

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Keskine, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskine, C.P.A.
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Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

Independent Auditor's Report

October 12, 2005

To the Township Board
Star Township
Antrim County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and aggregate non-major fund activities of the Township of Star, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the major fund and aggregate non-major fund activity of the Township of Star as of March 31, 2005, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

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The management's discussion and analysis on pages 3-5 and budgetary comparison information on pages 24-27 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 supplementary information. However, we did not audit the information and express no opinion on it.

KESKINE, COOK, MILLER & ALEXANDER, LLP

STAR TOWNSHIP BOARD

P.O. Box 94
6775 Alba Highway
Alba, Michigan 49611

TOWNSHIP OF STAR
MANAGEMENT'S DISCUSSION & ANALYSIS
YEAR ENDED MARCH 31, 2005

This section of the Star Township's financial report presents our discussion and analysis of our financial performance during the fiscal year ending March 31, 2005. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

Our financial status improved over the prior year.

Overall revenues for the primary government were approximately $295,000, of which approximately $25,000 is classified as program revenue, $239,000 is classified as general revenue (consisting primarily of property taxes and state shared revenue), and $31,000 was a transfer from another government for a joint road project. Overall expenses totaled approximately $247,000.

Overview of the Financial Statements

This annual report consists of three parts: the management's discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements that provide both long and short-term information about our overall financial status. These statements present governmental activities. The remaining statements are fund financial statements, which focus on the detailed activities of the Township's funds.

The notes to the financial statements explain some of the information in the statements and provide more detailed data. Required supplementary information further explains and supports the financial statements through budgetary comparisons.

Government-Wide Statements

The government-wide statements report information about the township as a whole u sing accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities and this is one method to measure the Township's financial health or position. Over time,

increases or decreases in an entity's net assets is an indicator of whether the financial position is improving or deteriorating. Star Township's government-wide net assets increased approximately $48,000 for the year ended March 31, 2005.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

Star Township has the following funds:

Governmental Funds: All of the Township's activities are classified in the governmental fund category. These funds are presented on the modified accrual basis, which is designated to show short-term financial information. You will note that differences between the government-wide statements and the fund statements are disclosed to explain the differences between them.

General Fund – this fund account for all activities of the Township not required to be reported in a separate fund. Revenues consist primarily of property taxes and state shared revenue. Expenditures consist of general government activities, cemetery, and building and grounds.

Road Fund – this fund accounts for the road millage and road repair and maintenance expenditures.

Fire Fund – this fund accounts for the fire millage which is received by the Township and subsequently disbursed to the Star Township Fire Board which maintains their own accounting records. The Star Township Fire Board is consolidated with Star Township and reported as a separate fund for the Township's financial reporting.

Ambulance Fund – this fund accounts for the ambulance millage and expenditures paid to the Ambulance Authority which provides the ambulance service.

Financial Analysis of the Township as a Whole

The township's net assets increased approximately $48,000 to approximately $341,000 at March 31, 2005. The increase in net assets is primarily attributed to an excess of revenue over expenditures in the fire fund.

Capital Asset Activity

The Township purchased a new software package to assist the Treasurer in tax collections at a cost of $2,995. The fire fund purchased various equipment, including a new American Fire Pumper, at a cost of approximately $77,000. In addition, a $5,000 piece of equipment was disposed of during the year by the fire fund.

Debt Activity

The fire fund received proceeds of $60,000 of new debt for the purchase of the American Fire Pumper truck and $10,000 of new debt for the purchase of a used tanker from another local municipality. Principal payments of $1,227 were made on the American Fire Pumper and $5,000 on the used tanker. This new debt is added to the previous debt which financed the construction of the fire hall building and totals $93,726 at March 31, 2005.

The fire fund's debt to a local financial institution is paid by the general fund and reimbursed to the general fund by the fire fund.

Known Factors Affecting Future Operations

None.

Contacting Township Management

This financial report is designed to provide our taxpayers, creditors, and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenue it receives. If you have any questions concerning this report, please contact any member of the Township Board at P.O. Box 94, Alba, MI 49611.

Richard Steel

Richard Steel, Supervisor

Marilyn Rypkowski

Marilyn Rypkowski, Clerk

TOWNSHIP OF STAR
STATEMENT OF NET ASSETS
MARCH 31, 2005

	PRIMARY GOVERNMENT
ASSETS	
Cash	$ 274,797
Delinquent tax receivable	17,197
Capital assets, net of accumulated depreciation	142,601
Total Assets	434,595
LIABILITIES	
Accounts payable	225
Long-term debt:	
Debt due within one year	20,381
Debt due in more than one year	73,345
Total Liabilities	93,951
NET ASSETS	
Invested in capital assets - net of related debt	48,875
Restricted for:	
Fire protection	84,582
Road repair and maintenance	66,779
Ambulance service	1,908
Unrestricted	138,500
Total Net Assets	$ 340,644

See accompanying notes to financial statements

TOWNSHIP OF STAR
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

Functions / Programs	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS & CONTRI-BUTIONS	CAPITAL GRANTS & CONTRI-BUTIONS	NET REVENUE (EXPENSES) & CHANGE IN NET ASSETS PRIMARY GOVERNMENT
Governmental activities:					
General government	$ (101,300)	$ 797	$ -	$ -	$ (100,503)
Public safety	(73,664)	-	-	23,818	(49,846)
Public works	(70,667)	-	-	-	(70,667)
Interest on long-term debt	(1,554)	-	-	-	(1,554)
Total governmental activities	(247,185)	797	-	23,818	(222,570)
GENERAL REVENUES					
Property taxes					156,363
Property tax administration fee					9,298
State shared revenue (not restricted to a specific purpose)					52,810
Interest					3,316
Refunds and rebates					5,792
Miscellaneous					11,485
Total general revenue					239,064
Change in net assets before transfers from other governments					16,494
Transfers from other governments					31,000
Change in net assets					47,494
Net assets - April 1, 2004					293,150
Net assets - March 31, 2005					$ 340,644

See accompanying notes to financial statements.

TOWNSHIP OF STAR
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2005

	MAJOR FUNDS			NON-MAJOR FUND	
	GENERAL	ROAD	FIRE	AMBULANCE	TOTAL
ASSETS					
Cash	$ 134,974	$ 62,810	$ 77,013	$ -	$ 274,797
Delinquent Taxes Receivable	3,751	3,969	7,569	1,908	17,197
Total Assets	138,725	66,779	84,582	1,908	291,994
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	225	-	-	-	225
Fund Balances:					
Undesignated	138,500	66,779	84,582	1,908	291,769
Total Liabilities and Fund Balances	$ 138,725	$ 66,779	$ 84,582	$ 1,908	$ 291,994

See accompanying notes to financial statements.

TOWNSHIP OF STAR
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2005

TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 8)	$ 291,769
Amounts reported for governmental activities in the Statement of Net Assets (page 6) are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	142,601
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(93,726)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF NET ASSETS, PAGE 6)	$ 340,644

See accompanying notes to financial statements

TOWNSHIP OF STAR
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2005

	MAJOR FUNDS			NON-MAJOR FUND	
	GENERAL	ROAD	FIRE	AMBULANCE	TOTAL
Revenue					
Property tax revenue	$ 35,245	$ 35,742	$ 68,192	$ 17,185	$ 156,364
Federal grant revenue	-	-	23,818	-	23,818
Miscellaneous revenue	6,759	-	3,138	-	9,897
Contributions	-	-	2,329	-	2,329
State shared revenue	52,810	-	-	-	52,810
Interest	3,316	-	-	-	3,316
Charges for service	10,095	-	-	-	10,095
Refunds and rebates	5,792	-	-	-	5,792
Total Revenues	114,017	35,742	97,477	17,185	264,421
Expenditures					
Current:					
General government	98,860	-	-	-	98,860
Public safety	5,382	-	46,713	15,277	67,372
Public works	-	70,667	-	-	70,667
Debt service	-	-	15,358	-	15,358
Capital outlay	2,995	-	76,723	-	79,718
Total Expenditures	107,237	70,667	138,794	15,277	331,975
Excess (Deficiency) of Revenues Over Expenditures	6,780	(34,925)	(41,317)	1,908	(67,554)
Other Financing Sources					
Contribution from other governments	-	31,000	-	-	31,000
Proceeds from the Issuance of debt	-	-	70,000	-	70,000
Proceeds from sale of assets	-	-	3,529	-	3,529
Total Other Financing Sources	-	31,000	73,529	-	104,529
Excess (Deficiency) of Revenue and Other Sources over Expenditures	6,780	(3,925)	32,212	1,908	36,975
Fund Balance - Beginning of Year	131,720	70,704	52,370	-	255,022
Fund Balance - End of Year	$ 138,500	$ 66,779	$ 84,582	$ 1,908	$ 291,769

See accompanying notes to financial statements.

TOWNSHIP OF STAR
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

NET CHANGE IN FUND BALANCES - GOVERNMENTAL ACTIVITIES (PAGE 10)	$	36,975
Amounts reported for governmental activities in the Statement of Activities (page 7) are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives		79,718
Depreciation expense is recorded in the statement of activities but not in the fund financial statements		(8,732)
Debt service payments are recorded as an expenditure in the governmental funds, but in the government-wide statements, debt service payments reduce the liability balance		13,804
Governmental funds record the proceeds from the issuance of debt and the sale of capital assets as revenue. In the statement of activities however, the proceeds increase the liability balance and offset the capital asset balance		(74,271)
CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF ACTIVITIES - PAGE 7)	$	47,494

See accompanying notes to financial statements

TOWNSHIP OF STAR
STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2005

	ASSETS	
Cash		$ 250
	LIABILITIES	
Due to others		250
	NET ASSETS	
Fiduciary net assets		$ -

See accompanying notes to financial statements

NOTE 1: ENTITY

The Township of Star is a general law township of the State of Michigan located in Antrim County, Michigan. It operates under an elected board and provides service to its residents in many areas including community enrichment and human services.

The criteria for determining the various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Star Township.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Star Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Star Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2004, the Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities.

Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. At this time, the Township has no business-type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, and other inter-governmental revenues.

Road Fund – This fund is used to account for the financial activity related to the repair and maintenance of Township roads. Revenues are derived primarily from property taxes.

Fire Fund – This fund is used to account for the financial activities of the Star Township Fire Department. Revenues are derived primarily from property taxes collected for fire protection services and the purchasing of equipment and grants.

The Township records the following non-major fund: Ambulance.

Other Funds

Fiduciary Funds - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Township departments.

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property tax revenues are recognized as follows:

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2004, are recorded as revenue in the current year. The Township's taxable value for the 2004 tax year totaled $35,769,308.

The tax rates for the year ended March 31, 2005, were as follows:

PURPOSE	RATE/ASSESSED VALUATION
General	0.9466 mills per $1,000
Fire (Voted)	1.9090 mills per $1,000
Road (Voted)	1.0000 mills per $1,000
Ambulance (Voted)	0.4811 mills per $1,000

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on an activity level. Budgets as adopted end on March 31 of each year. There are no carryover budget items.

CAPITAL ASSETS AND DEPRECIATION

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of $1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40 - 50 years
Computers and peripherals	5 years
Equipment	7 - 25 years

Land and construction in progress are not depreciated.

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

NOTE 3: CASH AND INVESTMENTS

Cash consists of deposit accounts at area financial institutions.

In order to maximize interest earnings, the Township combines the General, Road, and Ambulance Fund's cash into one common account. The respective balances at March 31, 2004 are as follows:

	Carrying Amount
General	$ 134,977
Road	62,810
Ambulance	-
Total	$ 197,787

All cash deposits are maintained in financial institutions in Northern Michigan. The Township's deposits are categorized to give an indication of the level of risk assumed by the Township at fiscal year-end. The categories are described as follows:

Category 1 – Insured or collateralized with securities held by the Township or by its agent in the Township's name.
Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.
Category 3 – Uncollateralized.

	Bank Balance	Category 1	Category 2	Category 3	Carrying Amount
Common Account	$198,158	$100,000	$ -	$ 98,158	$197,787
Fire Account	77,010	77,010			77,010
Total	$275,168	$177,010	$ -	$ 98,158	$274,797
Trust & Agency	$ 77,506	$ -	$ -	$ 77,506	$ 250

NOTE 4: CAPITAL ASSETS

Capital asset activity of the Township's activities was as follows:

Governmental Activities	Balance April 1, 2004	Additions	Disposals	Balance March 31, 2005
Capital assets being depreciated:				
Building and grounds	$ 71,000	$ -	$ -	$ 71,000
Equipment	36,600	79,718	5,000	111,318
Subtotal	107,600	79,718	5,000	182,318
Accumulated depreciation:				
Building and grounds	12,633	1,620	-	14,253
Equipment	19,310	7,112	958	25,464
Subtotal	31,943	8,732	958	39,717
Net capital assets	75,657	70,986	4,042	142,601

Depreciation expense was charged to functions of the Township as follows:

General government	$ 2,440
Fire	6,292
Total	$ 8,732

NOTE 5: LONG-TERM DEBT

The Township is obligated for the following debt instruments:

Fire Hall Loan – In November 2003, the Township entered into an installment purchase contract with First National Bank of Gaylord (now known as Independent Bank) for $40,000. Payments of $724.83, including interest at 3.29%, are due monthly through November 2008. The payments are made by the general fund and reimbursed by the fire fund.

Pumper Fire Truck - In January 2005, the Township entered into an installment purchase contract with First National Bank of Gaylord (now known as Independent Bank) for $60,000. Payments of $829.83, including interest at 4.35%, are due monthly through January 2012. The payments are made by the general fund and reimbursed by the fire fund.

Tanker Fire Truck – In June 2004, the Township entered into an installment purchase contract with the Bellaire Fire Department for $10,000. Payments of $5,000 are due annually in July 2004 and July 2005. No interest is charged on this loan.

NOTE 5: LONG-TERM DEBT (CONTINUED)

The following is a summary of the debt outstanding of the Township as of March 31, 2005.

Governmental Activities:	Balance April, 1 2004	Issued	Retired	Balance March 31, 2005
Fire hall loan	$ 37,529	$ -	$ 7,577	$ 29,952
Tanker truck loan	-	60,000	1,226	58,774
Pumper truck loan	-	10,000	5,000	5,000
Total	$ 37,529	$ 70,000	$ 13,803	$ 93,726

The annual principal and interest requirements for the years ended March 31, 2006 through maturity for all debts outstanding as of March 31, 2005 are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	$ 20,381	$ 3,275	$ 23,656
2007	15,977	2,679	18,656
2008	16,598	2,058	18,656
2009	14,270	1,426	15,696
2010	8,983	975	9,958
2011 - 2015	17,517	739	18,256
Total	$ 93,726	$ 11,152	$ 104,878

NOTE 6: ACCOUNTING AND REPORTING CHANGE

CALCULATION OF BEGINNING NET ASSETS

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Star Township has applied the provisions of this statement in the accompanying financial statements (including notes to the financial statements). Certain significant changes in the statement include the following:

NOTE 6: ACCOUNTING AND REPORTING CHANGE (CONTINUED)

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds

For the year beginning April 1, 2004, the Township adopted GASB Statement No. 34. The following adjustments have been made to reflect the cumulative effect of this accounting change.

	Primary Government
Total Fund Balance, April 1, 2004	$ 255,022
Capitalization of capital assets, net of accumulated depreciation	75,657
Long-term liabilities not due and payable in the current period and not reported in the funds	(37,529)
Beginning Net Assets, April 1, 2004	$ 293,150

NOTE 7: INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

NOTE 8: LEGAL PROCEDURES

As of October 12, 2005, the Township is defending its position in two legal actions: Chestonia Township V. Star Township and Ordway, etal, V. Star Township. These two cases involve the dissolution of a joint fire department with Chestonia Township and Star Township's creation of their own fire department that is funded with property tax money. This matter has been tried and appealed before the Court of Appeals and remanded for further proceedings. The likelihood of an unfavorable outcome and the potential to quantify a potential loss is undeterminable at this time.

TOWNSHIP OF STAR
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Revenue				
Property taxes	$ 30,172	$ 30,172	$ 35,245	$ 5,073
State shared revenue	45,000	45,000	52,810	7,810
Charges for services	3,000	3,000	10,095	7,095
Interest	900	900	3,316	2,416
Refunds & rebates	600	600	5,792	5,192
Miscellaneous	1,800	1,800	6,759	4,959
Total Revenue	81,472	81,472	114,017	32,545
Expenditures				
General Government				
Wages and fringes	50,000	50,000	3,081	(46,919)
Audit	2,250	2,250	2,250	-
Community services	4,500	4,500	4,292	(208)
Insurance	-	-	7,838	7,838
Street lights	4,000	4,000	3,261	(739)
Attorney fees	-	-	7,792	7,792
Data Processing	9,000	9,000	15,875	6,875
Miscellaneous	14,445	14,445	6,899	(7,546)
Contingency	108,747	108,747	-	(108,747)
Total General Government	192,942	192,942	51,288	(141,654)
Township Supervisor				
Wages	-	-	7,200	7,200
Miscellaneous	800	800	140	(660)
Total Township Supervisor	800	800	7,340	6,540
Election Board				
Elections expenses	2,000	2,000	1,778	(222)
Township Assessor				
Wages	-	-	13,795	13,795
Miscellaneous	4,200	4,200	1,798	(2,402)
Total Township Assessor	4,200	4,200	15,593	11,393
Township Clerk				
Wages	-	-	7,200	7,200
Miscellaneous	950	950	748	(202)
Total Township Clerk	950	950	7,948	6,998

TOWNSHIP OF STAR
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Township Treasurer				
Wages	-	-	7,500	7,500
Miscellaneous	7,500	7,500	8,679	1,179
Total Township Treasurer	7,500	7,500	16,179	8,679
Township Cemetery				
Wages	-	-	3,080	3,080
Miscellaneous	2,300	2,300	852	(1,448)
Total Township Cemetery	2,300	2,300	3,932	1,632
Township Hall				
Building and grounds expenditures	2,500	2,500	3,179	679
Total Expenditures	213,192	213,192	107,237	(105,955)
Excess (Deficiency) of Revenue over Expenditures	(131,720)	(131,720)	6,780	138,500
Fund Balance - Beginning of Year	131,720	131,720	131,720	-
Fund Balance - End of Year	-	-	138,500	138,500

TOWNSHIP OF STAR
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ROAD FUND
YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Revenue				
Property tax revenue	$ 44,300	$ 44,300	$ 35,742	$ (8,558)
Contribution from other governments	-	-	31,000	31,000
Total Revenue	44,300	44,300	66,742	22,442
Expenditures				
Road maintenance	72,000	72,000	70,667	(1,333)
Excess (Deficiency) of Revenue over Expenditures	(27,700)	(27,700)	(3,925)	23,775
Fund Balance - Beginning of Year	70,704	70,704	70,704	-
Fund Balance - End of Year	43,004	43,004	66,779	23,775

TOWNSHIP OF STAR
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FIRE FUND
YEAR ENDED MARCH 31, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
Revenue				
Property tax revenue	$ 58,000	$ 58,000	$ 68,192	$ 10,192
FEMA grant revenut	-	-	23,818	23,818
Other revenue	-	-	5,467	5,467
Total Revenue	58,000	58,000	97,477	39,477
Expenditures				
Wages	2,400	2,400	2,800	400
Supplies	475	475	2,099	1,624
Fire fighting supplies	1,100	1,100	19,219	18,119
Utilities	5,800	5,800	5,517	(283)
Repairs and maintenance	5,000	5,000	4,723	(277)
Gasoline	6,000	6,000	5,728	(272)
Insurance	3,300	3,300	3,764	464
Education and training	600	600	744	144
Capital outlay	29,000	29,000	76,723	47,723
Miscellaneous expense	324	324	2,119	1,795
Debt service	-	-	15,358	15,358
Total Expenditures	53,999	53,999	138,794	84,795
Excess (Deficiency) of Revenue Over (Under) Expenditures	4,001	4,001	(41,317)	(45,318)
Other Financing Sources				
Proceeds from the issuance of debt	-	-	70,000	70,000
Proceeds from the sale of fixed assets	-	-	3,529	3,529
Total Other Financing Sources	-	-	73,529	73,529
Excess of Revenue and Other Sources over Expenditures	4,001	4,001	32,212	28,211
Fund Balance - Beginning of Year	52,370	52,370	52,370	-
Fund Balance - End of Year	56,371	56,371	84,582	28,211

Keskine, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskine, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

October 12, 2005

To the Township Board
Township of Star, Antrim County

We have audited the financial statements of Star Township for the year ended March 31, 2005, and have issued our report thereon dated October 12, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 3, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Star Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Star Township are described in the notes to the financial statements. During the year ended March 31, 2005, the Township adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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.

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Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached pages summarize the adjustments that were proposed to management and made to the audited financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

Consultations with Other Independent Accountants

In some cases, management 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 School District'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 with other accountants.

Difficulties Encountered in Performing the Audit

The general ledger's of both the Township and the Star Township Fire Board were not in an organized state upon the commencement of our audit. As a result, significant time was spent reconciling various accounts and segregating the accounts of the Township and the Fire Board into compliance with the State of Michigan Uniform Chart of Accounts.

Comments and Recommendations

In planning and performing our audit of the financial statements of Star Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comment and recommendation should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- Bank reconciliations that reconcile the bank balance to the general ledger cash balance should be completed monthly. Bank reconciliations should be prepared timely (within 30 days of month-end) and reviewed by somebody independent of the cash receipt and disbursement functions.

Other comments and recommendations:

- The State of Michigan requires all units of government to comply with the State's Uniform Chart of Accounts. During the year ended March 31, 2005, neither the Township, nor the

Comments and Recommendations (Continued)

Fire Board complied with the provisions of the Uniform Chart of Accounts. We have provided guidance and assistance to the Township Clerk to change the Township's account structure to comply with the Uniform Chart of Accounts. We recommend that the general ledger structure of the Township and the Fire Board be changed to comply with the State's requirements. Similarly, the line-item budget approved by the Township Board and the Fire Board should be organized to coincide with the Chart of Accounts.

- In violation of the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended), Star Township experienced an overexpenditure of $28,211 in the Fire Fund. We recommend that the Township use its budgets as flexible management tools and amend when necessary to avoid overexpenditures.

- During our audit procedures related to the Star Township Fire Board, we noted numerous instances in which original invoices for various goods and services received and paid for by the Fire Board were misplaced and were unable to be provided for our review. It is imperative that all source documents, including but not limited to invoices and receipts, be retained in an organized manner for a minimum of 5 years following the end of the year.

- We noted that during the year ended March 31, 2005, that the Township purchased hams for all volunteer firefighters. The hams were purchased with general fund money. This purchase constitutes an illegal expenditure for a State of Michigan unit of government. Township funds cannot be expended on gifts or contributions not specifically authorized by state statute.

We hope you find the above comments and recommendations useful. We are available to assist you in implementing these items should the need arise.

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

Very truly yours,

Keskine, Cook, Miller & Alexander LLP

Keskine, Cook, Miller & Alexander LLP