Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

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

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	Central Operations for Police Services	Muskegon

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
9/30/05	12/9/05	12/13/05

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

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

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

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

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

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

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

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

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

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

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

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

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

Certified Public Accountant (Firm Name)			
Brickley DeLong, PLC			
Street Address	City	State	ZIP
500 Terrace Plaza, P.O. Box 999	Muskegon	MI	49443-0999
Accountant Signature		Date	
Brickley DeLong, PLC		12/13/05	

Central Operations for Police Services
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended September 30, 2005

Central Operations for Police Services

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As management of Central Operations for Police Services, we present to the readers of the Organization's financial statements this overview and analysis of the financial activities of the Central Operations for Police Services for the fiscal year ended September 30, 2005. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- The Organization's net assets increased by $1,211,091 (46.5%) from $2,604,265 to $3,815,356. The primary reason for the large increase is the property tax levy. The levy is being used to repay contractual debt to Muskegon County which was incurred for the installation of a county wide fiber optic network and purchase of an integrated public safety data system. The repayment of long-term debt consumes the current financial resources of the organization but does not have any affect on net assets. In future periods as the capital assets purchased with the debt are depreciated, net assets will decrease.
- The Organization is in the midst of making significant capital improvements. These improvements are being made in three phases, with each phase being funded by a separate contract payable with a bank. These contracts payable will be repaid by a property tax millage that is reserved for debt retirement.
- The first phase includes the installation of a county wide fiber optic network and the purchase of an integrated public safety data system package. A contract payable in the amount of $2,839,041 was entered into December 2003 for those related expenditures. This phase is still ongoing.
- The second phase involves the hardware and software solutions to utilize the new data system package. A contract payable in the amount of $1,605,959 was entered into December 2003 for those related expenditures. This phase was completed during the year.
- The third and final project phase, including future borrowings, has been deferred to the 2006-07 fiscal year budgets.
- The unspent contracts payable proceeds are maintained in a restricted bank account where invoices are paid as expenditures are incurred. The restricted account balance is invested in a money market account that earns a low rate of interest to reduce the cost of borrowing the money. The restricted account balance represents funds available for capital purchases in future phases of the project.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts - *management's discussion and analysis (this section)*, *the basic financial statements, and required supplementary information*. The basic financial statements include information that presents two different views of the Organization.

- The first column of the financial statements includes information on the Organization's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Organization's sources and uses of funds.

- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Organization's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Organization as a whole and present a longer term view of the Organization's finances.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

This is the second year of the management's discussion and analysis report, consistent with *Governmental Accounting Standards Board Statement Number 34*. This year's report shows comparative data with the prior year in the condensed financial information section.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Organization. The net assets may be used as an indicator of a government's financial health. As of September 30, 2005, the Organization's net assets totaled $3,815,356.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., property, plant, and equipment). These assets are used to provide services to the Organization's members, 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 $1,394,681. This represents the amount of discretionary resources that can be used for general governmental operations.

Net Assets

	2005	2004
Assets		
Current assets and other assets	$ 4,503,130	$ 5,844,859
Capital assets	2,727,641	1,559,534
Total assets	7,230,771	7,404,393
Liabilities		
Long-term liabilities outstanding	2,314,535	3,248,814
Other liabilities	1,100,880	1,551,314
Total liabilities	3,415,415	4,800,128
Net assets		
Invested in capital assets, net of related debt	1,486,916	437,492
Restricted	933,759	1,226,902
Unrestricted	1,394,681	939,871
Total net assets	$ 3,815,356	$ 2,604,265

Current and other assets decreased as cash was spent to purchase Phase I and II equipment. The capital assets increased due to the millage equipment purchases. The net asset category, invested in capital assets net of related debt increased for the same reason.

Long-term liabilities decreased as no new funds were borrowed and regular debt service payments were made.

Change in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
Property taxes	$ 1,117,914	$ 1,065,466
Member assessments	1,413,953	1,413,953
Emergency telephone surcharge	669,445	698,605
Wireless surcharge	233,484	215,455
Wireless surcharge training	9,977	11,130
Charges for services	18,315	16,650
Investment earnings	94,858	43,826
Other	413	21,564
Total revenues	3,558,359	3,486,649
Expenses		
Personnel	1,484,795	1,527,910
Maintenance and operations	387,752	432,260
Interest on long-term debt	135,229	89,759
Depreciation and amortization	332,914	81,504
Loss on disposal of capital assets	6,578	-
Total expenses	2,347,268	2,131,433
Change in net assets	1,211,091	1,355,216
Net assets at beginning of year	2,604,265	1,249,049
Net assets at end of year	$ 3,815,356	$ 2,604,265

Member assessments are based on population, taxable value and calls for service. They are charged to members' police and fire agencies in Muskegon County. For the past three budget years, there has been a freeze on member assessments with the total revenues approximately the same. However, the individual member's contributions have changed slightly according to updated information applied to the formula.

The emergency telephone surcharge has seen a decrease but the wireless surcharge has increased as more individuals replace their home phone with a wireless phone.

Investment earnings increased significantly due to the holding of the unspent loan proceeds and the better interest rates.

Depreciation and amortization saw a large increase because the new equipment purchased has begun depreciating.

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Organization has only one fund, the General Fund.

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

At the end of the 2005 fiscal year, the General Fund reported a fund balance of $4,330,253, a decrease of $866,638. The decrease was a result of capital outlay for equipment purchases. The debt proceeds funding these purchases were recognized in previous years. The unreserved fund balance was $1,489,701. Unreserved fund balance represents 34% of General Fund expenditures.

General Fund Budget

During the current fiscal year, the Organization made several amendments to its original budget. The most significant of those is listed below:

- Overtime was reduced due to efficient scheduling.
- Payroll benefits were reduced because of the Organization being short on staff.
- Equipment repairs and maintenance saw a significant amount of savings. New equipment purchased has reduced the costs of keeping older equipment operational.
- Debt service decreased as three installment loans were paid off this year.

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

- Investment earnings were over budget due to higher interest rates.
- Salaries and wages were under budget due to efficient scheduling. Even with a staff shortage, overtime was kept to a minimum.
- Repairs and maintenance costs were under budget due to equipment upgrades.
- Capital outlay was under budget due to delays in the expected progress of capital improvements.

Capital Assets

Central Operations for Police Services' investment in capital assets as of September 30, 2005 totaled $2,727,641 (net of accumulated depreciation). This investment in capital assets includes equipment and furniture.

Capital asset additions include the purchase of distributed computers for the police and fire departments, the purchase of networking and server room equipment. The fiber optic network project has caused delays in the installation of various other networking projects. Depreciation expense for the year was $320,630.

Capital Assets

	2005	2004
Communications equipment	$ 639,127	$ 627,689
Computer equipment	3,260,654	1,676,957
Office equipment and furniture	45,428	45,428
Construction in progress	1,338,051	1,474,816
Total capital assets	5,283,260	3,824,890
Less accumulated depreciation	2,555,619	2,265,356
Total (net of accumulated depreciation)	$ 2,727,641	$ 1,559,534

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

Long-Term Debt

At the end of the fiscal year, the Organization had total debt outstanding of $3,261,935 consisting of installment purchase agreements, contracts payable and compensated absences. Long-term debt decreased by $921,906 during the year due to scheduled normal debt repayments.

Additional information on the Organization's long-term debt can be found in note G of the "Notes to the Financial Statements" of this report.

General Economic Overview

The 2005-06 fiscal year budgets emphasize the completion of the current millage projects that are in progress. Remaining loan proceeds will be spent to acquire the capital assets according to outstanding purchase agreements, necessary to complete the project. In addition, the Organization expects to drawdown the contracts payable to fund the third phase of the capital improvements in the amount of $2,200,000.

Member assessments will remain frozen as member agencies state revenue sharing has decreased. The wire line operational surcharge continues to decrease and the wireless surcharge continues to increase as more home phone lines are disconnected and replaced by wireless phones.

There are no other planned changes anticipated for the operation of the agency.

Requests for Information

This financial report is designed to provide a general overview of Central Operations for Police Services' finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director's Office at Central Operations for Police Services, 860 Terrace Street, Muskegon, MI 49443 or by phone at (231) 722-3524.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 9, 2005

Board of Directors
Central Operations for Police Services
Muskegon, Michigan

We have audited the accompanying financial statements of Central Operations for Police Services as of and for the year ended September 30, 2005, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Operations for Police Services' 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 financial position of Central Operations for Police Services, as of September 30, 2005, and the changes in financial position, 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 - vi and 16 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental 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 the Central Operations for Police Services' basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 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.

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Central Operations for Police Services

BALANCE SHEET—STATEMENT OF NET ASSETS

September 30, 2005

	Balance Sheet - Modified accrual	Adjustments	Statement of Net Assets - Full accrual
ASSETS			
Cash and investments	$ 2,366,863	$ -	$ 2,366,863
Accounts receivable	183,239	-	183,239
Due from other governmental units	25,694	-	25,694
Prepaid items	21,038	-	21,038
Restricted assets	1,886,899	-	1,886,899
Capital assets, net			
Nondepreciable	-	1,338,051	1,338,051
Depreciable	-	1,389,590	1,389,590
Bond issuance costs, net	-	19,397	19,397
Total assets	$ 4,483,733	2,747,038	7,230,771
LIABILITIES			
Accounts payable	$ 58,391	-	58,391
Accrued liabilities	37,480	-	37,480
Deferred revenue	57,609	-	57,609
Noncurrent liabilities			
Due within one year			
Bonds, loans and contracts	-	889,400	889,400
Compensated absences	-	58,000	58,000
Due in more than one year			
Bonds, loans and contracts	-	2,256,477	2,256,477
Compensated absences	-	58,058	58,058
Total liabilitlies	153,480	3,261,935	3,415,415
FUND BALANCE			
Reserved for:			
Prepaid items	21,038	(21,038)	-
Debt service	911,910	(911,910)	-
Capital projects	1,885,755	(1,885,755)	-
Wireless surcharge costs	14,608	(14,608)	-
Wireless surcharge training costs	7,241	(7,241)	-
Unreserved	1,489,701	(1,489,701)	-
Total fund balance	4,330,253	(4,330,253)	-
Total liabilities and fund balance	$ 4,483,733		
NET ASSETS			
Invested in capital assets, net of related debt		1,486,916	1,486,916
Restricted for			
Wireless surcharge costs		14,608	14,608
Wireless surcharge training costs		7,241	7,241
Debt service		911,910	911,910
Unrestricted		1,394,681	1,394,681
Total net assets		$ 3,815,356	$ 3,815,356

The accompanying notes are an integral part of this statement.

Central Operations for Police Services

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES

For the year ended September 30, 2005

	Revenues and Expenditures - Modified accrual	Adjustments	Statement of Activities - Full accrual
REVENUES			
Property taxes	$ 1,117,914	$ -	$ 1,117,914
Member assessments	1,413,953	-	1,413,953
Emergency telephone surcharge	669,445	-	669,445
Wireless surcharge	233,484	-	233,484
Wireless surcharge training	9,977	-	9,977
Charges for services	18,315	-	18,315
Investment earnings	94,858	-	94,858
Other	413	-	413
Total revenues	3,558,359	-	3,558,359
EXPENDITURES			
Current			
Personnel	1,483,108	1,687	1,484,795
Maintenance and operations	387,752	-	387,752
Debt service			
Principal	923,593	(923,593)	-
Interest and fees	135,229	-	135,229
Capital outlay	1,495,315	(1,495,315)	-
Depreciation and amortization	-	332,914	332,914
Loss on disposal of capital assets	-	6,578	6,578
Total expenditures	4,424,997	(2,077,729)	2,347,268
Net change in fund balance—net assets	(866,638)	2,077,729	1,211,091
Fund balance—net assets at October 1, 2004	5,196,891	(2,592,626)	2,604,265
Fund balance—net assets at September 30, 2005	$ 4,330,253	$ (514,897)	$ 3,815,356

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Central Operations for Police Services (Organization) 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 Organization's accounting policies are described below.

1. Reporting Entity

Central Operations for Police Services was organized as a joint venture under the provisions of the Urban Cooperation Act of 1967, by several local governmental units of Muskegon County. Its purpose is to provide central dispatch for police and fire protection services to the residents of the participating units. The Organization is governed by representatives from each of the member units. Revenues of the Organization include prorated assessments to member municipalities to cover projected operating expenditures for the ensuing year, an emergency telephone surcharge levied on telephone users and property taxes.

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

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Organization. The Organization only has governmental activities, which normally are supported by taxes and intergovernmental revenues. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Organization has only one fund, no separate columns have been provided.

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

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

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.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Property taxes, member assessments, telephone surcharges 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Organization reports the following major governmental fund:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

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

4. Assets, Liabilities and Net Assets or Equity

a. Deposits and Investments

The Organization'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 Organization 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 Organization intends to hold the investment until maturity.

The Organization has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Organization 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.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

b. Receivables and Payables

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

The County processes property taxes. The Organization does not collect taxes for any other taxing units. 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 Organization to the County for collection. The County advances the Organization all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Organization. The Organization recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 state taxable value for real/personal property of the Organization totaled approximately $3,663,000. The ad valorem taxes levied consisted of .30 mills for the Organization's general operations. These amounts are recognized in the General Fund.

c. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

d. Restricted Assets

Proceeds of long-term debt are restricted for capital improvements.

e. Capital Assets

Capital assets, which include furniture and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $1,000 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.

Furniture and equipment is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Communications equipment	5-15
Computer equipment	5
Office equipment and furniture	5-15

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

f. Compensated Absences

Organization employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid for unused vacation at their current rates. Unused sick leave is accumulated up to 960 hours for employees. Unused sick leave over the maximum accumulation is paid by the Organization at 50 percent of the excess accumulation on December 31 of each year. One half of all unused accumulated sick leave is paid to employees who retire. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

g. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities 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.

h. 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.

i. Use of Estimates

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

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end.

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

a. Prior to September 30, the Board of Directors reviews a proposed operating budget submitted by the executive director for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

b. The budget is legally enacted through passage of a resolution.

c. 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 Board of Directors.

The appropriated budget is prepared by department. The legal level of budgetary control is the department level. The Board of Directors made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. As of September 30, 2005, $4,153,762 of the Organization's bank balance of $4,253,762 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Organization 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 Organization 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 Organization is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005
Capital assets, not being depreciated:				
Construction in progress	$ 1,474,816	$ 1,484,191	$ 1,620,956	$ 1,338,051
Capital assets, being depreciated:				
Communications equipment	627,689	33,383	21,945	639,127
Computer equipment	1,676,957	1,598,697	15,000	3,260,654
Office equipment and furniture	45,428	-	-	45,428
Total capital assets, being depreciated	2,350,074	1,632,080	36,945	3,945,209
Less accumulated depreciation:				
Communications equipment	600,972	11,239	15,367	596,844
Computer equipment	1,639,677	304,044	15,000	1,928,721
Office equipment and furniture	24,707	5,347	-	30,054
Total accumulated depreciation	2,265,356	320,630	30,367	2,555,619
Total capital assets, being depreciated, net	84,718	1,311,450	6,578	1,389,590
Capital assets, net	$ 1,559,534	$ 2,795,641	$ 1,627,534	$ 2,727,641

Construction commitments:
At September 30, 2005, the Organization had entered into agreements for equipment upgrades. Below is a summary of the agreements.

Project	Spent-to-date	Remaining
Equipment upgrades	$1,159,583	$1,530,766

NOTE E—BOND ISSUANCE COSTS

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005
Issuance costs (over 60 months)	$ 39,645	$ -	$ -	$ 39,645
Less accumulated amortization	7,964	12,284	-	20,248
Total bond issuance cost, net of amortization	$ 31,681	$ (12,284)	$ -	$ 19,397

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, all deferred revenue was for member assessments received for the subsequent fiscal year.

NOTE G—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities
The following is a summary of long-term liabilities activity for the Organization for the year ended September 30, 2005.

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005	Due within one year
Installment purchase agreements	$ 95,695	$ -	$ 80,485	$ 15,210	$ 15,210
Contracts payable	3,973,775	-	843,108	3,130,667	874,190
Compensated absences	114,371	91,920	90,233	116,058	58,000
	$ 4,183,841	$ 91,920	$ 1,013,826	$ 3,261,935	$ 947,400

Installment agreements:

$83,075 - Equipment obligation; due in monthly installments of $1,573 including interest through July 2006; interest at 5.14%	$ 15,210

Contracts payable:

$2,839,041 - Contract payable - Muskegon County; due in monthly installments of $44,100 to $50,632 through December 2008; plus interest at 3.34%	1,899,207
$1,605,959 - Contract payable - Muskegon County; due in monthly installments of $24,775 to $28,836 through June 2009; plus interest at 4.12%	1,231,460
	3,145,877
Compensated absences	116,058
	$ 3,261,935

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

Year ending September 30,	Governmental activities Principal	Interest
2006	$ 889,400	$ 102,200
2007	906,100	68,300
2008	939,000	34,700
2009	441,377	5,435
	$ 3,175,877	$ 210,635

The above loans and contracts are collateralized by various equipment held by the Organization. There are a number of limitations and restrictions contained in the various indentures. The Organization is in substantial compliance with all significant limitations and restrictions.

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

The contracts payable to Muskegon County (County) are part of an agreement in which the Organization has pledged revenue that will be generated from the special property tax millage to repay bank installment loan contracts that the County has obtained in the maximum amount of $6,645,000, so long as the debt proceeds are for the purchase of equipment and other capital items.

The contracts payable to Muskegon County are identical to the repayment terms of the installment loan contracts that the County has obtained with a bank.

In addition, the Organization has agreed to indemnify and hold the County, its agent, instrumentalities and officers harmless against any liabilities which might be imposed as a result of any deficiency of the funding generated by the property tax millage.

NOTE H—LEASES

The Organization leases office facilities and equipment under noncancelable operable leases. Total costs for such leases were $20,959 for the year ended September 30, 2005. The future minimum lease payments for these leases are as follows:

Year ending September 30,	Amount
2006	$22,458
2007	15,772
2008	2,400
2009	800
	$41,430

NOTE I—OTHER INFORMATION

1. Risk Management

The Organization 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 Organization manages its liability and property risk as a member of the Michigan Municipal League Liability and Property Pool (MMLPP), a public entity risk pool providing liability and property coverage to its participating members. The Organization pays an annual premium to MMLPP for its insurance coverage. The MMLPP 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.

NOTE I—OTHER INFORMATION—Continued

1. Risk Management—Continued

The Organization manages its workers' compensation risk by participating in the Michigan Municipal League Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Organization 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 assuring 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 Organization carries commercial insurance for workers' compensation, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

2. Contingent Liabilities

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

3. Post-Retirement Health Care

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

As of year end, there were three retired employees receiving benefits. The Organization finances the Plan on a pay-as-you-go basis. For the year ended September 30, 2005, the Organization's post-retirement health care cost under the Plan was approximately $6,300.

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN

Plan Description. The Central Operations for Police Services is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Central Operations for Police Services. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Central Operations for Police Services
860 Terrace Street
Muskegon, MI 49443

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN—Continued

Funding Policy. Organization employees are required to contribute 4.70 percent to the Plan. The Organization is required to contribute at an actuarially-determined rate depending upon position from 5.33 to 5.48 percent of covered wages.

Annual Pension Cost. For the year ended September 30, 2005, the Organization's annual pension cost was approximately $50,000 which the Organization contributed. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

(Dollars amounts in thousands)

Year ending	Approximate Annual Pension Cost (APC)	Percent of APC contributed	Net Pension Obligation
9/30/03	$14,000	100%	$ -
9/30/04	40,000	100	-
9/30/05	50,000	100	-

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

(Dollars amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/02	$3,079	$2,997	$ 82	103%	$ 921	0%
12/31/03	3,220	3,277	(57)	98	980	6
12/31/04	3,336	3,444	(108)	97	1,028	10

2. Deferred Compensation Plan

The Central Operations for Police Services offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Central Operations for Police Services' employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE K—RECONCILATION OF GENERAL FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance – governmental funds		$ 4,330,253
Amounts reported for government 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	$ 5,283,260	
Accumulated depreciation	(2,555,619)	2,727,641
Bond issuance cost are not capitalized and amortized in the governmental funds.		
Bond issuance costs	39,645	
Accumulated amortization	(20,248)	19,397
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds, loans and contracts payable	(3,145,877)	
Compensated absences	(116,058)	(3,261,935)
Net assets of governmental activities in the Statement of Net Assets		$ 3,815,356
Net change in fund balances – total governmental funds		$ (866,638)
Amounts reported for government activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives.		
Depreciation and amortization expense	(332,914)	
Capital outlay	1,495,315	1,162,401
Governmental funds report proceeds from the sale of capital assets as revenue; these proceeds are netted against the net book value of the asset sold in determining a gain or loss on sale in the Statement of Activities.		(6,578)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		923,593
Increases in the compensated absences are reported on the accrual method in the Statement of Activities and are reported as expenditures when financial resources are used in the governmental funds.		(1,687)
Change in net assets in governmental activities		$ 1,211,091

REQUIRED SUPPLEMENTAL INFORMATION

Central Operations for Police Services

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended September 30, 2005

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	$ 1,126,052	$ 1,117,914	$ 1,117,914	$ -
Member assessments	1,396,862	1,396,862	1,413,953	17,091
Emergency telephone surcharge	679,000	679,000	669,445	(9,555)
Wireless surcharge	222,000	222,000	233,484	11,484
Wireless surcharge training	11,130	9,977	9,977	-
Charges for services	18,315	18,315	18,315	-
Investment earnings	26,000	44,000	94,858	50,858
Other	200	300	413	113
Total revenues	3,479,559	3,488,368	3,558,359	69,991
EXPENDITURES				
Current				
Public safety				
Personnel				
Salaries and wages	1,089,419	1,089,419	1,037,253	52,166
Overtime	81,138	52,000	41,318	10,682
Payroll taxes	90,328	90,500	84,145	6,355
Payroll benefits	365,519	326,550	311,592	14,958
Longevity	10,200	8,800	8,800	-
Maintenance and operations				
Printing	250	250	223	27
Paper, supplies and postage	11,350	7,850	7,560	290
Contractual services	4,000	6,000	6,410	(410)
Publications and dues	1,700	1,650	1,620	30
Professional services	28,500	47,905	32,740	15,165
Communications	30,000	18,000	20,730	(2,730)
Telephone	75,000	68,000	66,188	1,812
Conferences and seminars	1,000	500	348	152
Travel	6,500	6,000	8,632	(2,632)
Advertising	1,200	800	724	76
Liability insurance	53,387	48,534	51,432	(2,898)
Utilities	7,000	4,800	5,659	(859)
Building maintenance	8,400	7,500	6,367	1,133
Equipment repairs and maintenance	234,155	207,058	124,055	83,003
Building rental	21,000	20,643	17,801	2,842
Equipment rental	6,000	3,700	3,158	542
Education and training	30,000	21,350	6,257	15,093
Software	1,000	1,000	635	365
Miscellaneous	2,000	1,500	1,378	122
Administrative charges	24,000	21,000	25,835	(4,835)
Debt service				
Principal	1,035,935	923,608	923,593	15
Interest and fees	180,559	134,284	135,229	(945)
Capital outlay	1,360,917	1,709,411	1,495,315	214,096
Total expenditures	4,760,457	4,828,612	4,424,997	403,615
Net change in fund balance	$ (1,280,898)	$ (1,340,244)	(866,638)	$ 473,606
Fund balance at October 1, 2004			5,196,891	
Fund balance at September 30, 2005			$ 4,330,253	

OTHER SUPPLEMENTAL INFORMATION

Central Operations for Police Services
General Fund
Schedule of Revenues and Expenditures - Wireless Surcharges
For the year ended September 30, 2005

Accounting for Enhanced 911-Emergency Services for Wireless Telephone Systems
P.A. 81 of 1999 was passed by the legislature in order to provide emergency 911 capability for wireless phones and to finance the new facilities and equipment that might be needed for such improvements through a user fee. It also re-established the Emergency Telephone Service Committee to provide technical assistance in formulating and implementing a 911 plan. The Emergency Telephone Service Committee requires that fees generated by the wireless surcharge be spent only on allowable costs as determined by the committee. Fees are also provided for training that must also be spent only on allowable costs.

The fees generated by the wireless surcharges and the costs of providing those services were as follows for the year ended September 30, 2005:

	Wireless surcharge	Wireless surcharge training
Revenues		
Wireless surcharge	$ 233,484	$ 9,977
Interest	4,369	-
Total revenues	237,853	9,977
Expenditures		
Salaries and wages	164,923	6,691
Overtime	6,570	-
Payroll taxes	13,316	-
Payroll benefits	49,510	-
Longevity	1,399	-
Travel	-	4,723
Education and training	-	5,172
Total expenditures	235,718	16,586
Excess of revenues over (under) expenditures	2,135	(6,609)
Reserved fund balance at October 1, 2004	12,473	13,850
Reserved fund balance at September 30, 2005	$ 14,608	$ 7,241

In accordance with the act, the excess of revenues over expenditures is shown in the General Fund as reserved for wireless surcharge costs and reserved for wireless surcharge training costs.

Central Operations for Police Services
General Fund
Schedule of Revenues and Expenditures - Reserved Fund Balance
For the year ended September 30, 2005

Accounting for Enhanced 911-Emergency Services for Wireless Telephone Systems
On November 5, 2002, the voters of Muskegon County approved a millage for up to .30 mills to provide funding for the operation, including capital improvement, of the Organization. The Organization has borrowed money through contracts payable to Muskegon County to fund capital improvements with the intent of repaying the borrowed money with the funds generated by the millage.

The monies generated by the millage and contracts payable and the corresponding expenditures for capital improvements and debt service were as follows for the year ended September 30, 2005:

	Reserved for Debt Service	Reserved for Capital Project
Revenues		
Property taxes	$ 1,117,914	$ -
Interest	7,061	46,804
Total revenues	1,124,975	46,804
Expenditures		
Professional services	18,403	-
Equipment repair and maintenance	12,058	-
Capital outlay	407,441	1,076,796
Debt Service		
Principal	843,108	-
Interest and fees	132,634	-
Total expenditures	1,413,644	1,076,796
Excess of revenues over (under) expenditures	(288,669)	(1,029,992)
Reserved fund balance at October 1, 2004	1,200,579	2,915,747
Reserved fund balance at September 30, 2005	$ 911,910	$ 1,885,755

Because the contracts payable agreement commits the contract proceeds to specific capital improvements, all unspent contract proceeds will be shown as reserved for capital projects. The agreement with the County of Muskegon also provides that the funds generated by the voted millage be used to repay the contracts payable and costs related to the capital improvement project. Since the majority of the money is obligated for debt service, unspent monies generated by the voted millage will be shown as reserved for debt service.