LOCKPORT TOWNSHIP
ST. JOSEPH COUNTY, MICHIGAN

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☒Twp ☐Village ☐Other	Lockport Township	St Joseph

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/2006	8/22/06	1/3/2007

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below.** (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☐	No comment were required
Other (Describe)	☐	None required

Certified Public Accountant (Firm Name)	Telephone Number
Norman & Paulsen, P.C.	269-273-8641

Street Address	City	State	Zip
123 N Main Street	Three Rivers	MI	49093

Authorizing CPA Signature	Printed Name	License Number
C.P.A.	Rick Strawser C.P.A.	16951

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Norman & Paulsen, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members of the Township Board
Lockport Township St. Joseph County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Lockport Township as of and for the year ended June 30, 2006, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of Lockport Township as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information beginning on page ii through vii and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Norman & Paulsen PC

Norman & Paulsen, P.C.

August 22, 2006
Three Rivers, Michigan

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)

As management of Lockport Township, St. Joseph County, Michigan, we offer readers of these financial statements this narrative overview and analysis of the financial activities of Lockport Township for the fiscal year ended June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The township's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide Financial Statements – The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The first statement, the statement of net assets, presents information on the Township's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The second government-wide statement, the statement of activities, presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type) activities). The governmental activities of the Township include general government and administration and public safety. The business-type activity is the water operations.

The government-wide financial statements can be found on pages 1 - 2 of this report.

Fund Financial Statements – A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Township has one basic governmental fund, the general fund. The basic governmental financial statements can be found on pages 3 - 4 of this report.

Proprietary funds provide the same type of information as the business-type activities shown on the government-wide financial statements, only in more detail. The Township has one proprietary fund, the water fund. The basic proprietary fund financial statements can be found on pages 5 - 8 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 - 18 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The assets of the Township exceeded its liabilities at June 30, 2006 by $4,472,585 (net assets). Of this amount, $701,875 (unrestricted net assets) may be used to meet the Township's ongoing obligations to citizens and creditors in accordance with the Township's fund designation and fiscal policies.

The Township's combined net assets increased by $2,156,221 or 93.09% from a year ago. As we look at the governmental activities separate from the business-type activities, i.e., the water fund, we see that the governmental activities experienced an increase in net assets of $63,875 as contrasted with the water fund that increased its net assets by $2,092,346. The water fund received $2,092,959 of capital contributions to be used toward the water system improvement project and a $3,000 hook up fee contribution. Thus, the water fund's net assets from operations decreased by $3,613. This decrease was $2,394 greater than budgeted.

The largest portion of the Township's net assets (84.31 %) reflects its investment in capital assets (water mains, wells and pumping equipment, buildings and land) net of the related debt. Savings and certificates of deposit make up 17.2 % of the net assets.

LOCKPORT TOWNSHIP'S NET ASSETS

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Current and other assets	$ 49,196	$490,414	$ 396,313	$ 201,962
Capital assets	219,163	19,876	4,078,385	1,989,600
Total Assets	$568,359	$510,290	$4,474,698	$2,191,562
Current liabilities	$ 38,156	$ 43,962	$ 215,398	$ 9,742
Long-term liabilities	-	-	316,918	331,784
Total Liabilities	$ 38,156	$ 43,962	$ 532,316	$ 341,784
Net Assets:				
Invested in capital assets, net of related debt	$219,163	$ 19,876	$3,566,547	$1,657,816
Unrestricted	311,040	446,452	375,835	192,220
Total Net Assets	$530,203	$466,328	$3,942,382	$1,850,036

Unrestricted net assets – the part of net assets that can be used to finance day to day operations, decreased by $135,412 for the governmental activities. This represents a decrease of 30.33%. The current level of unrestricted net assets for our governmental activities stands at $311,040, or about 86.51% of the current year's governmental expenditures (excluding the Township Hall construction of $201,092, which was a one time occurrence).

Analysis of the Township's Operations

The following table provides a summary of the Township's operations for the year ended June 30, 2006. Governmental activities increased the Township's net assets by $63,875, accounting for a 13.7% increase of net assets. Business-type activities increased the Township's net assets by $2,092,346. This increase reflects capital contributions of $2,095,959 and a net loss from operating activities of $3,316.

LOCKPORT TOWNSHIP'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Revenues:				
Program revenues:				
Charges for services	$ 36,827	$ 25,058	$ 97,882	$ 89,594
Capital grants and contributions	-	-	2,095,959	597,126
General revenues:				
Property taxes	109,800	106,044	-	-
State shared revenues	254,003	248,479	-	-
Unrestricted investment earnings	16,683	13,821	4,114	2,559
Miscellaneous	7,900	(412)	-	-
Total revenues	425,213	392,990	2,197,955	689,279
Expenses:				
General government	232,746	235,416	-	-
Planning and zoning	19,840	32,797	-	-
Public safety	59,055	66,361	-	-
Public works	6,895	3,514	62,046	40,882
Health and welfare	13,919	13,527	-	-
Library	25,567	24,437	-	-
Interest	-	-	13,961	13,740
Depreciation	3,316	2,379	29,602	15,633
Total expenses	361,338	378,431	105,609	70,255
Increases/(Decreases in net assets	63,875	14,559	2,092,346	560,630
Net assets – beginning of fiscal year	466,328	451,769	1,850,036	1,231,012
Net assets – end of fiscal year	$530,203	$466,328	$3,942,382	$1,850,036

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Governmental Funds

At the close of the current fiscal year, the Township's general fund reported ending fund balances of $311,040. All is unreserved and available for use within the Township's designation and policies. Fund balance decreased by $135,412. This deficit includes $201,092 of expenditures during the current year for the construction of a new Township Hall. The Township has remaining fund balance in excess of approximately 86% of one year's expenditures (excluding the one time capital outlay during the current fiscal year).

Proprietary Funds

The water fund generated $6,234 of earnings from operations for the fiscal year which was $14,234 greater than the budgeted loss of $8,000. Nonoperating revenues from capital contributions of $2,092,959 were used on the water system improvement project. An additional $3,000 came from a hook up contribution. Interest expense accrued on bonds less interest and investment income was $9,847. Therefore, the net change in net assets of the water fund was an increase of $2,092,346. At the end of the current fiscal year, unreserved fund balance for the water fund was $375,835 or 355.87% of the total water fund expenditures.

General Fund Budgetary Highlights

The Township revised the original appropriations for expenditures as approved by the Village board. A detailed budgetary comparison is found on page 19 of this report.

The Township's actual revenue exceeded budgeted revenue by $106,913 or 33.59%, due to receiving more than budgeted in the following categories:

property tax revenue	$18,700
state shared revenues	54,003
charges for services	17,850
interest	8,683
miscellaneous revenues	7,677

The Township's overall budgeted expenditures of $563,737 were less than actual expenditures by $3,112 or .55%. Significant variances between amounts budgeted and spent:

General government:	
Renovations on the Township hall and purchase of other equipment	$(59,406
Elections	8,513
Assessor	6,870
Board of review	4,829
Planning and Zoning:	
Planning commission	11,913
Public Safety:	
Fire protection	27,405

CAPITAL ASSETS

The Township's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to $4,297,548 (net of accumulated depreciation). This investment in capital assets includes land and easements, buildings, water equipment, and office equipment.

During the current fiscal year the Township completed construction of the Township Hall for a total cost of $216,778 of which $15,686 was spent in the prior fiscal year.

During the current fiscal year the Township invested $2,100,778 in improvements to the water system as part of an ongoing $7.3 million project. The Township acquired additional land easements for a total of $17,609.

Capital Assets at June 30, (Net of Accumulated Depreciation):

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Land and easements	$ -	$ -	$ 117,874	$ 100,265
Buildings	215,893	15,686	295,785	21,111
Water mains, piping	-	-	734,107	360,441
Water tower	-		723,757	-
Wells, pumps, meters	-	-	64,607	14,661
Office equipment	3,270	4,190	-	-
Water improvement system	-	-	2,142,255	1,493,122
Total	$219,163	$19,876	$4,078,385	$1,989,600

Additional information on the Township's capital assets can be found in note 5 on pages 16 - 17 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The general fund budget for fiscal year ended June 30, 2007 anticipates revenues of approximately $413,650 a decrease of $11,563 from the current year actual revenues. The budget reflects an estimated increase/reduction of the following:

State revenue sharing	$6,000
Property tax collections	(2,300)
Charges for services	(2,350)
Interest earned	(8,683)
Special road assessments	(1,577)
Miscellaneous revenues	(3,147)

General fund budgeted expenditures for the fiscal year ended June 30, 2007 reflect a decrease from the previous year of approximately $120,600. In fiscal year ended June 30, 2006, the budget appropriated $130,000 for the planned construction on the Township hall which was completed.

The water fund budget for fiscal year ended June 30, 2007 anticipates revenues of approximately $129,195 and expenditures of approximately $143,793 for a net loss of $14,598. For fiscal year ended June 30, 2007, a resolution was passed to charge the following minimum quarterly rates: capital improvement rate - $32;, water service fee for 5/8" line - $20 and water service fee for 1" line - $29.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact Martin Barth at (269) 279-2184 or Wayne Timm at (269) 279-2722.

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business -Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 3)	$ 123,826	$ 103,598	$ 227,424
Investments	166,398	79,202	245,600
Receivables (net)	4,095	25,616	29,711
Internal balances (Note 4)	4,946	(4,946)	-
Due from other governments (Note 4)	37,746	184,669	222,415
Due from Tax Collection Fund	2,506	-	2,506
Inventories	-	4,365	4,365
Prepaid expenses	9,679	3,809	13,488
Capital assets - net (Note 5)	219,163	4,078,385	4,297,548
Total Assets	$ 568,359	$ 4,474,698	$ 5,043,057
LIABILITIES			
Accounts payable	$ 28,146	$ 196,997	$ 225,143
Accrued interest	-	3,401	3,401
Accrued payroll and other liabilities	10,010	-	10,010
Noncurrent liabilities			
Due in one year (Note 7)	-	15,000	15,000
Due in more than one year (Note 7)	-	316,918	316,918
Total Liabilities	$ 38,156	$ 532,316	$ 570,472
NET ASSETS			
Invested in capital assets Net of related debt	$ 219,163	$ 3,566,547	$ 3,785,710
Unrestricted	311,040	375,835	686,875
Total Net Assets	$ 530,203	$ 3,942,382	$ 4,472,585

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
General government	$ 232,746	$ -	$ -	$ -
Planning and zoning	19,840	3,900	-	-
Public safety	59,055	21,350	-	-
Public works	6,895	11,577	-	-
Health and welfare	13,919	-	-	-
Library	25,567	-	-	-
Depreciation (unallocated)	3,316	-	-	-
Total Governmental Activities	361,338	36,827	-	-
Business - Type Activities				
Water	105,609	97,882	-	2,095,959
Total Primary Government	$ 466,947	$ 134,709	$ -	$ 2,095,959

General Revenues
- Property Taxes
- State revenue sharing
- Unrestricted Investment Earnings
- Miscellaneous

Total General Revenues - Transfers

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business -Type Activities	Total
$ (232,746)	$ -	$ (232,746)
(15,940)	-	(15,940)
(37,705)	-	(37,705)
4,682	-	4,682
(13,919)	-	(13,919)
(25,567)	-	(25,567)
(3,316)	-	(3,316)
(324,511)	-	(324,511)
-	2,088,232	2,088,232
(324,511)	1,763,721	1,439,210
109,800	-	109,800
254,003	-	254,003
16,683	4,114	20,797
7,900	-	7,900
388,386	4,114	392,500
63,875	2,092,346	2,156,221
466,328	1,850,036	2,316,364
$ 530,203	$ 3,942,382	$ 4,472,585

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

		General Fund
ASSETS		
Cash and cash equivalents		$ 123,826
Investments		166,398
Receivables (Net)		4,095
Due from other funds		7,452
Receivables from other governments		37,746
Prepaid expenses		9,679
Total Assets		$ 349,196
LIABILITIES		
Accounts payable		$ 28,146
Accrued payroll and other accrued liabilities		10,010
Total Liabilities		38,156
FUND BALANCES		
Unrestricted		311,040
Total liabilities and fund balance		$ 349,196
Total governmental fund balances		$ 311,040
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
Cost of capital assets	247,895	
Less accumulated depreciation	(28,732)	219,163
Net Assets of Governmental Activities		$ 530,203

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund
Revenues	
Taxes and penalties	$ 109,800
Licenses and permits	400
State shared revenues	254,003
Charges for services	36,427
Interest	16,683
Other revenue	7,900
Total Revenues	425,213
Expenditures	
Current	
General Government	232,080
Planning and zoning	19,840
Public Safety	59,055
Public Works	6,895
Health and Welfare	13,919
Library	25,567
Capital outlay	203,269
Total Expenditures	560,625
Excess (deficiency) of Revenues Over Expenditures	(135,412)
Fund Balance - July 1, 2005	446,452
Fund Balance - June 30, 2006	$ 311,040
Net change in governmental fund balance	$ (135,412)
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation. Purchases less than $1,000 were expensed on the statement of activities rather than being capitalized.	
Cost of capital outlay	202,603
Depreciation expense	(3,316)
Change in Net Assets of Governmental Activities	$ 63,875

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business - Type Activities
	Water Fund
ASSETS	
Current assets	
Cash and cash equivalents (Note 3)	$ 103,598
Investments (Note 3)	79,202
Receivables, net	25,616
Due from other governments (Note 4)	184,669
Inventories	4,365
Prepaid expenses	3,809
Total current assets	401,259
Noncurrent assets	
Capital assets, net (Note 4)	4,078,385
Total noncurrent assets	4,078,385
Total Assets	$ 4,479,644
LIABILITIES	
Current liabilities	
Accounts payable	$ 196,997
Accrued interest payable	3,401
Due to other funds (Note 4)	4,946
Current portion of bonds payable	15,000
Total current liabilities	220,344
Noncurrent liabilities	
Bonds payable, net of discount (Note 7)	316,918
Total Liabilities	$ 537,262
NET ASSETS	
Invested in capital assets - Net of related debt	$ 3,566,547
Unrestricted	375,835
Total Net Assets	$ 3,942,382

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Business - Type Activities
	Water Fund
Operating revenues	
Metered sales	$ 92,161
Penalties and interest charges	2,981
Installation and other charges	2,740
Total operating revenues	97,882
Operating expenses	
Personnel services	4,522
Contractual services	41,369
Utilities	8,100
Repairs and maintenance	2,151
Other supplies and expenses	5,904
Depreciation	29,602
Total operating expenses	91,648
Operating income (loss)	6,234
Nonoperating revenues (expenses)	
Interest and investment income	4,396
Investment custodial fee	(282)
Interest expense	(13,602)
Bond administration fee	(225)
Bond discount amortization	(134)
Total nonoperating revenues (expenses)	(9,847)
Income (loss) before contributions	(3,613)
Capital contributions	2,095,959
Change in net assets	2,092,346
Total net assets - beginning of year	1,850,036
Total net assets - end of year	$ 3,942,382

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Business - Type Activities
	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 93,970
Payments to suppliers	(57,092)
Payments to employees	(4,540)
Receipts from/payments to other funds	(124)
Net cash provided (used) by operating activities	32,214
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal and interest payments on capital debt	(13,827)
Capital contributions	1,936,414
Purchases of capital assets	(1,928,853)
Net cash provided (used) by capital and related financing activities	(6,266)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(42,188)
Interest and dividends	4,114
Net cash provided by investing activities	(38,074)
Net increase (decrease) in cash and cash equivalents	(12,125)
Balances - beginning of year	115,723
Balances - end of year	$ 103,598

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Business - Type Activities
	Water Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	6,234
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation expense	29,602
(Increase) decrease in assets	
Receivables	(3,912)
Inventories	(3,538)
Prepaid expenses	54
Increase (decrease) in liabilities	
Accounts payables	2,773
Due to other funds	1,001
Net cash provided by operating activities	$ 32,214

See accompanying notes to financial statements

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
TAX COLLECTION AGENCY FUND
JUNE 30, 2006

	Agency Funds - Current Tax Fund
ASSETS	
Cash and cash equivalents	$ 2,993
Total Assets	$ 2,993
LIABILITIES	
Due to other funds (Note 4)	$ 2,506
Due to other governments (Note 4)	174
Total Liabilities	$ 2,680

See accompanying notes to financial statements

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lockport Township conform to the accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by Lockport Township:

A. Reporting Entity

The Township of Lockport became a general law township in the year 1840, and operates under an elected eight-member council (Board). The Township provides the following services: public safety, highways and streets, planning and zoning, water supply services, and general administrative services. A separate board of six members, one of which is on the general board, has responsibility for the water supply services.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. Accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the Township. Educational services are provided through the local school district. Fire services are provided by contract through the Lockport, Fabius and Park Fire Department, which is a separate governmental unit.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported in separate columns in the fund financial statements. There are no non-major governmental funds to report on.

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both 'measurable and available'. Revenue is considered to be 'available' if it is collected 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The governmental fund balance sheet reflects property taxes receivable. Property tax is levied on each December 1st on the taxable valuation of property located in Lockport Township as of the preceding December 31st.

Although Lockport Township's 2005 ad valorem tax is levied and collectible on December 1, 2005, it is Lockport Township's policy to recognize revenue when collected. and made "available" for the financing of operations. "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 2005 taxable valuation of Lockport Township totaled $86,013,447 on which ad valorem taxes levied consisted of .91600 mills for Lockport Township's operating purposes, raising $78,777 for operations. These amounts are recognized in the General Fund financial statements as taxes receivable – current or as property tax revenue.

Governmental Funds are those through which most of the governmental functions typically are financed.

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

b) **Special Revenue Fund** – The Special Revenue Fund accounts for revenue derived from specific sources that are restricted by legal and regulatory provisions to finance specific activities. There are no special revenue funds to report on.

The Township has only the General Fund to report on. There are no other major or nonmajor funds to report on.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, change in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Water Fund - The Water Fund accounts for revenues generated from charges for distribution of water to the residential and commercial users of the Township. The water fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are not included in the government-wide financial statements.

> **Tax Collection Fund** – The Tax Collection Fund accounts for the levy, collection and payment of taxes levied on personal and real estate properties held within the Township.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities, and Net Assets or Equity

Bank deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value and consist of certificates of deposit with initial maturity dates of less than one year.

Receivables and payables - n general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statement as "internal balances."

No allowance for uncollectible accounts has been provided. Management has evaluated the accounts and believes they are all collectible.

Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories – Inventories of the Water Fund consists of meters and other parts recorded at cost.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than $2,500 and an estimated useful life in excess of 3 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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Buildings	25 - 39 years
Water mains & piping	40 - 50 years
Wells and meters	15 - 25 years
Water equipment	5 – 7 years
Software	3 years
Computer equipment	5 years
Office equipment	10 years

GASB 34 requires infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized. The township has no infrastructure to report at June 30, 2006.

Compensated Absences (Vacation and Sick Leave) - It is Lockport Township's policy to not permit employees to accumulate unused vacation or sick days from year to year.

Long-Term Obligations - In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts 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. In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balances 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.

Net Assets – In the government-wide financial statements net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information-Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. At the annual meeting held in May the budget for the fiscal year commencing July 1 is presented to assembled electors for their comment before it is given final approval. The Council must approve any revisions of the budgets.

The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the fund. The Township supervisor is empowered to transfer line-item budget amounts within appropriation centers. Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

In the Required Supplemental Information section of the financial statements, the Township's actual expenditures and budgeted expenditures is shown for the governmental funds. The Township incurred expenditures in excess of appropriations in the following:

Budget item	Budget Appropriation	Actual Expenditure	
General Fund:			
General government			
Township board	$225,546	$284,907	*
Clerk	39,080	39,125	
Board of review	1,475	1,666	
Township hall	5,400	6,312	
Planning and zoning			
Ordinance enforcement	7,000	9,353	

* The Township built a new township hall. The Board approved the expenditure in excess of current year revenues as the Township had savings reserves from prior years to cover the deficit.

NOTE 3 DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local government units to make deposits and invest in the following:

- In certificates of deposit, savings accounts, deposit accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan.
- In bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States.
- In United States government or federal agency obligation repurchase agreements.
- In banker's acceptance of United States banks.
- In commercial paper rated within the two highest classifications that mature not more than 270 days after the date of purchase.
- In obligations of the State of Michigan or its political subdivisions that are rated as investment grade.
- In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Lockport Township Board has designated three banks for the deposit of the Township's funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bank depository accounts, certificates of deposit, and in mutual funds, but not the remainder of State statutory authority as listed above.

Lockport Township's deposits and investment policy are in accordance with statutory authority.

At fiscal year end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business Type Activities	Fiduciary Funds	Total Primary Government
Demand deposits	$ 225	$103,598	$ 276	$104,099
Savings and Certificates of deposit	289,999	-	2,404	292,403
Money market trust	-	79,202	-	79,202
Total	$290,224	$182,800	$2,680	$475,704

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The Township's cash is subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had $173,024 of bank deposits (checking, savings and certificates of deposit) spread among two banks that were uninsured and uncollateralized. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy restricts certificates of deposit maturities to a period of 12 months or less in order to reduce the Township's interest rate risk.

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of **interfund balances** is as follows:

Receivable Fund	Payable Fund	Amount
Due From	**Due to**	
Water Fund	General Fund	$ 4,946
Tax Collection Agency Fund	General Fund	2,506

The composition of balances **due to other governments** is as follows:

Due From	**Due to**	
Tax Collection Agency Fund	St. Joseph County Treasurer	142
Tax Collection Agency Fund	Three Rivers Schools	342

The composition of balances **due from other governments** is as follows:

Due to	**Due From**	
General Fund	State revenue sharing	37,746
Water Fund	State of Michigan Department of Environmental Quality	184,669
Tax Collection Agency Fund	State of Michigan	311

NOTE 5 CAPITAL ASSETS

The following summarizes the changes in capital assets for the fiscal year ended June 30, 2006:

GOVERNMENTAL ACTIVITIES	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated:				
Under construction	$ 15,686	$ -	$ 15,686	$ -
Capital assets being depreciated:				
Building and improvements	-	216,778	-	216,778
Office equipment	29,606	1,511	330	30,787
	29,606	218,289	330	247,565
Less Accumulated depreciation for:				
Building and improvements	-	885	-	885
Office equipment	25,416	2,431	330	27,517
	25,416	3,316	330	28,402
Net Capital Assets being depreciated	4,190	214,973	-	219,163
Total Governmental Activities -net of depreciation	19,876	214,973	15,686	219,163
Business-type Activities				
Non-depreciable capital assets				
Land and easements	100,265	17,609	-	117,874
Water mains, wells not in use	99,412	-	-	99,412
Water system Improvements	1,493,122	2,099,332	1,450,199	2,142,255
	1,692,799	2,116,941	1,450,199	2,359,541
Depreciable capital assets				
Buildings	53,079	279,567	-	332,646
Water mains	475,492	411,693	-	887,185
Water tower	-	731,068	-	731,068
Wells, pumps	65,766	28,666	-	94,432
Meters	26,851	651	-	27,502
Software	307	-	307	-
Subtotal	621,495	1,451,645	307	2,072,833
Less accumulated depreciation				
Buildings	31,968	4,893	-	36,861
Water mains	214,463	13,615	-	228,078
Water tower	-	7,311	-	7,311
Wells, pumps	57,920	2,654	-	60,574
Meters	20,036	1,129	-	21,165
Software	307	-	307	-
Subtotal	324,694	29,602	307	353,989
Net Depreciable Capital Assets	296,801	1,422,043	-	1,718,844
Total Business-Type Capital Assets – Net of Depreciation	$1,989,600	$3,538,984	$1,450,199	$4,078,385

NOTE 5 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Unallocated	$ 3,316
Business-Type Activities	
Water	$29,602

Construction Commitments-The Township is constructing an alternate water supply system. Total to date expenditures of $3,690,539 have been capitalized. The Township has completed phase 3. It is anticipated that the total project will be approximately $7.3 million. Part of this project is being financed through a $335,000 St. Joseph County Limited Tax General Obligation Bond. The remainder of the project will be financed through state grants.

NOTE 6 PENSION PLAN

The Township maintains a deferred contribution plan for substantially all employees. The employer contribution is 25% of eligible compensation. Employees may not contribute. For fiscal year ended June 30, 2006, the employer contribution was $23,245.

NOTE 7 LONG-TERM DEBT

Bond and contractual obligation activity can be summarized as follows:

Business-Type Activities	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Limited Tax General Obligation Water Supply System Bonds; issued by St. Joseph County in April 2004, $335,000 bond, 3.5 – 4.55% interest, maturing October 2019.	$335,000	$ -	$335,000	$15,000
Total Business-Type Activities	$335,000	$ -	$335,000	$15,000

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30	Business-Type Principal	Business-Type Interest	Total
2007	15,000	13,340	28,340
2008	20,000	12,727	32,727
2009	20,000	12,017	32,017
2010	20,000	11,298	31,298
2011	20,000	10,573	30,573
2012-2016	125,000	38,944	163,944
2017-2020	115,000	10,847	125,847
Totals	$335,000	$109,746	$444,746

NOTE 8 RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. At fiscal year end there are no outstanding claims.

REQUIRED SUPPLEMENTARY INFORMATION

LOCKPORT TOWNSHIP, ST. JOSEPH COUNTY, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended budget
Resources (inflows)				
Real and personal property taxes	$ 91,100	$ 91,100	$ 109,800	$ 18,700
Cable franchise fee	300	300	400	100
Licenses and permits	500	500	-	(500)
State revenue sharing	200,000	200,000	254,003	54,003
Charges for services	7,000	7,000	24,850	17,850
Sales - zoning books	300	300	-	(300)
Land split fees	300	300	-	(300)
Interest	8,000	8,000	16,683	8,683
Special road assessments	10,000	10,000	11,577	1,577
Miscellaneous revenues	800	800	7,900	7,100
Amounts available for appropriations	318,300	318,300	425,213	106,913
Charges to appropriations (outflows)				
General government				
Township Board	225,546	225,546	284,907	(59,361)
Supervisor	37,580	36,080	35,287	793
Elections	9,000	9,000	487	8,513
Assessor	38,564	38,564	31,694	6,870
Clerk	39,080	39,080	39,125	(45)
Board of Review	1,175	1,475	1,666	(191)
Treasurer	40,430	40,430	35,601	4,829
Township hall	4,200	5,400	6,312	(912)
Cemetery	600	600	270	330
Planning and zoning				
Ordinance enforcement	7,000	7,000	9,353	(2,353)
Planning commission	22,400	22,400	10,487	11,913
Public safety	86,460	86,460	59,055	27,405
Public works	10,600	10,600	6,895	3,705
Health & welfare	15,000	15,000	13,919	1,081
Library	25,652	25,652	25,567	85
Transfers to other governments	450	450	-	450
Total charges to appropriations	563,737	563,737	560,625	3,112
Excess (deficiency) of resources over charges to appropriations	(245,437)	(245,437)	(135,412)	110,025
Beginning of Year Fund Balance	446,452	446,452	446,452	-
End of Year Fund Balance	$ 201,015	$ 201,015	$ 311,040	$ 110,025