

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a long-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements. (A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kinross Charter Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.)

The Township as a Whole

The Township's combined net assets decreased 2.4% from a year ago, decreasing from \$14,581,913 (after prior period adjustment) to \$14,228,776. As we look at the governmental activities separately from the business-type activities, we can see that net assets of the governmental activities experienced an increase of \$201,038 during the year (3.8% increase). The business-type activities experienced a \$554,175 (5.9%) decrease in net assets, primarily as a result of depreciation of fixed assets

Comparative Analysis to the previous year's financial results is not available due to this being the first fiscal year of implementation of GASB 34. It will be provided in future years when prior year information is available.

In a condensed format, the table below shows the net assets Kinross Charter Township as of March 31, 2005.

	Governmental Activities <u>2005</u>	Business-Type Activities <u>2005</u>	Total <u>2005</u>
Current Assets	\$ 1,081,296	\$ 964,656	\$ 2,045,952
Noncurrent Assets	4,606,705	8,120,622	12,727,327
Total Assets	<u>5,688,001</u>	<u>9,085,278</u>	<u>14,773,279</u>
Current Liabilities	54,693	102,884	157,577
Long-Term Debt Outstanding	108,608	278,318	386,926
Total Liabilities	<u>163,301</u>	<u>381,202</u>	<u>544,503</u>
Net Assets			
Invested in Capital Assets - Net of Debt	4,520,051	7,875,622	12,395,673
Unrestricted (Deficit)	<u>1,004,649</u>	<u>828,454</u>	<u>1,833,103</u>
Total Net Assets	<u>\$ 5,524,700</u>	<u>\$ 8,704,076</u>	<u>\$ 14,228,776</u>

Charter Township of Kinross, Michigan

Management's Discussion and Analysis
March 31, 2005

The current level of unrestricted net assets for our governmental activities stands at \$950,662, or about 49.5% of expenses. This is within the targeted range set by the Township Board of Trustees during its last budget process.

The following table shows the activities of the Township.

	<u>Governmental</u> <u>Activities</u> <u>2005</u>	<u>Business-Type</u> <u>Activities</u> <u>2005</u>	<u>Total</u> <u>2005</u>
Program Revenues			
Charges for Services	\$ 1,267,501	\$ 1,841,456	\$ 3,108,957
Operating Grants and Contributions	63,791	-	63,791
General Revenues			
Property Taxes	368,034	-	368,034
Federal, State, Local - General	4,091	32,170	36,261
State Revenue Sharing	515,043	-	515,043
Donations	700	-	700
Interest on Deposits	26,746	24,929	51,675
Investment Earnings (Loss)	(10,820)	(9,595)	(20,415)
Gain on Disposal of Fixed Asset	4,001	8,566	12,567
Transfers	<u>(119,515)</u>	<u>119,515</u>	<u>-</u>
Total Revenues	<u>2,119,572</u>	<u>2,017,041</u>	<u>4,136,613</u>
Program Expenses			
Legislative	10,022	-	10,022
General Government	418,851	-	418,851
Public Safety	285,683	-	285,683
Health and Welfare	987,753	-	987,753
Recreation	38,895	-	38,895
Public Works	43,893	-	43,893
Debt Service	11,537	-	11,537
Other Expenses	121,900	-	121,900
Recreation Center	-	153,056	153,056
Chippewa County Fair Grounds	-	91,760	91,760
Golf Course	-	411,213	411,213
Public Works	<u>-</u>	<u>1,795,487</u>	<u>1,795,487</u>
Total Expenses	<u>1,918,534</u>	<u>2,451,516</u>	<u>4,370,050</u>
Change in Net Assets	<u>\$ 201,038</u>	<u>\$ (434,475)</u>	<u>\$ (233,437)</u>

Governmental Activities

The Township's total governmental revenues increased by approximately \$75,000, primarily due to a higher number of ambulance runs than the year before.

Expenses decreased by about \$219,000 compared to the previous year, primarily in the fourth quarter, with the largest reduction being in Capital Outlay (Capital Outlay is an expenditure which results in the acquisition of fixed assets or additions to fixed assets which are presumed to have benefits for more than one year. It is an expenditure for land or existing buildings; improvements of grounds; construction of buildings; additions to buildings; remodeling of buildings; or, initial, additional and replacement of equipment) This was necessary because of a freeze in state-shared revenue (State-shared revenue is a program through which state revenue is distributed to local government units; in Michigan, local units may use it for any purpose.).

Any increase in state-shared revenue seems unlikely. In fact, with the state continuing to experience budget shortfalls the potential exists for further cuts. With the cost of doing business continuing to rise, more Township budget cuts are inevitable without new voted millage dollars from the community.

Business-Type Activities

The Township's largest business-type activities are the Public Works and Golf Course Funds. We provide water and sewer service to approximately 975 customers (residential and commercial) each month. In March 2005, we increased our water rates from a base rate of \$15.95 per month to \$19.95. This reversed a reduction in rates in 2002 when it was lowered from \$19.95 to \$15.95. Approximately 70% of the Public Works revenue comes from the five prison facilities in our service area.

In May 2004, the Kinross Charter Township Board voted to rename the golf course "The Oaks at Kincheloe." This was done to project a more modern concept and to enhance the image of the golf course. With the opening of a new course in Sault Ste. Marie, Ontario, and several new courses in the EUP over the last few years, the task of attracting customers is more challenging then ever, but the Oaks at Kincheloe continues to be one of the premier golf courses in the Upper Peninsula. Also in 2004, we refinanced our golf course bonds (Bond issue - bonds sold by a government agency at a particular time and identifiable by date of maturity) and were able to lower our interest rate from about 6.75% to 2.85%. The resulting reduction in our annual bond payment allowed us to float another bond issue, which provided financing for much needed upgrades to our irrigation system and the replacement of old equipment.

The Township's Funds

Our analysis of the Township's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005 include the General Fund, Ambulance Fund, Police Fund, Golf Course Fund, and Public Works Fund.

The Ambulance Fund is our largest governmental fund with revenue of over one million dollars for 2005. The revenues have continued to climb since the Township began 24-hour coverage with non-volunteers in 2000. They now average nearly three runs per day.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account various events that affected the budget during the year. The largest change was made in the Police Fund, where wages were reduced 10% from the original budget. This was made possible by promoting one of the full time officers to police chief, instead of hiring a part time employee to fill this position after the previous chief resigned. No other budget amendments had a significant impact on operations.

Capital Asset and Debt Administration

At the end of the 2004-05 fiscal year the Township had \$12,727,327 invested in a broad range of capital assets, including buildings, police, ambulance & fire equipment, and water and sewer infrastructure. The total debt that the Township is carrying in the amount of \$339,075 is lower than most municipalities, which gives us flexibility for the future and does not burden our budget with interest payments.

Economic Factors and Next Year's Budgets and Rates

A major concern for the future continues to be state-shared revenues. The State of Michigan has cut our revenue sharing by over \$100,000 since 2002. Any more cuts will result in some Township services being reduced or even eliminated. If the State proposes any further reduction in revenue sharing, we must coordinate with the Township Association, contact our State government officials, and let them know that local government provides many essential services that would be severely crippled if there are more cuts.

One area where the Township was able to save money by privatizing the assessing and zoning department. Our projected savings is \$18,000 for the 2005-06 budget, and over \$28,000 for 2006-07. Privatization is cost effective option for the future.

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 the township office.