

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 <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Penn Township	County Cass
Fiscal Year End March 31, 2007	Opinion Date September 28, 2007	Date Audit Report Submitted to State September 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

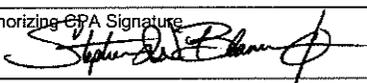
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 ROBINSON RD		City JACKSON	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

PENN TOWNSHIP

Vandalia, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
March 31, 2007**



REHMANN ROBSON

Certified Public Accountants

PENN TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

September 28, 2007

Board of Trustees
Township of Penn
Vandalia, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Penn Township, Michigan*, as of and for the year ended March 31, 2007, 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Penn Township, Michigan, as of March 31, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Penn Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

PENN TOWNSHIP
Statement of Net Assets
March 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 771,692
Receivables, net	2,197,531
Other assets	10,469
Capital assets not being depreciated	21,822
Capital assets being depreciated, net	<u>453,347</u>
 Total assets	 <u>3,454,861</u>
Liabilities	
Accounts payable and accrued expenses	47,714
Long-term liabilities:	
Due in one year	344,650
Due in more than one year	<u>2,672,950</u>
 Total liabilities	 <u>3,065,314</u>
Net assets	
Invested in capital assets	475,169
Restricted for:	
Debt service	492,621
Unrestricted (deficit)	<u>(578,243)</u>
 Total net assets	 <u><u>\$ 389,547</u></u>

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities					
Legislative	\$ 81,115	\$ -	\$ -	\$ -	\$ (81,115)
General government	95,960	51,852	-	-	(44,108)
Public safety	210,245	27,760	-	-	(182,485)
Public works	45,949	52,140	22,368	163,828	192,387
Health and welfare	29,690	-	-	-	(29,690)
Interest expense	145,493	-	-	-	(145,493)
Unallocated depreciation	49,066	-	-	-	(49,066)
Total governmental activities	<u>\$ 657,518</u>	<u>\$ 131,752</u>	<u>\$ 22,368</u>	<u>\$ 163,828</u>	<u>(339,570)</u>
Changes in net assets					
General revenues:					
					222,686
					219,960
					14,633
					<u>457,279</u>
					117,709
					<u>271,838</u>
					<u>\$ 389,547</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

PENN TOWNSHIP
Balance Sheet
Governmental Funds
March 31, 2007

	<u>Major Debt Service Funds</u>					Totals
	General	Diamond Lake Sewer	Donnell Lake Sewer	Vandalia Water	Nonmajor Funds	
Assets						
Cash and cash equivalents	\$ 320,932	\$ 135,092	\$ 194,505	\$ 80,805	\$ 40,358	\$ 771,692
Receivables:						
Accounts	32,479	-	-	-	-	32,479
Taxes	13,014	-	-	-	-	13,014
Special assessments	-	399,560	1,015,396	474,521	250,561	2,140,038
Deferred loans	-	-	-	-	12,000	12,000
Prepaid expenditures	10,469	-	-	-	-	10,469
Total assets	\$ 376,894	\$ 534,652	\$ 1,209,901	\$ 555,326	\$ 302,919	\$ 2,979,692
Liabilities and fund balances						
Liabilities						
Accounts payable	\$ 44,239	\$ -	\$ -	\$ -	\$ -	\$ 44,239
Deferred revenue	9,300	390,812	997,732	462,480	255,678	2,116,002
Total liabilities	53,539	390,812	997,732	462,480	255,678	2,160,241
Fund balances						
Reserved for prepaid expenditures	10,469	-	-	-	-	10,469
Unreserved, undesignated, reported in non-major:						
Debt service funds	-	-	-	-	47,241	47,241
Unreserved, undesignated	312,886	143,840	212,169	92,846	-	761,741
Total fund balances	323,355	143,840	212,169	92,846	47,241	819,451
Total liabilities and fund balances	\$ 376,894	\$ 534,652	\$ 1,209,901	\$ 555,326	\$ 302,919	\$ 2,979,692

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
March 31, 2007

Fund balances - total governmental funds	\$ 819,451
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 therefore are not reported in the funds.	
Add: capital assets not being depreciated	21,822
Add: capital assets being depreciated	766,394
Deduct: accumulated depreciation	(313,047)
Long-term receivables are not current financial resources and therefore are deferred in the funds.	
Add: deferred long-term receivables	2,116,002
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: bonds payable	(3,017,600)
Deduct: accrued interest on bonds payable	(3,475)
Net assets of governmental activities	\$ 389,547

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
Statement of Revenue, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2007

	<u>Major Debt Service Funds</u>					Totals
	General	Diamond Lake Sewer	Donnell Lake Sewer	Vandalia Water	Nonmajor Funds	
Revenue						
Property taxes	\$ 149,141	\$ -	\$ -	\$ -	\$ 73,545	\$ 222,686
Special assessments	-	156,994	202,573	51,971	26,957	438,495
Licenses and permits	51,107	-	-	-	-	51,107
Intergovernmental	100,207	-	-	-	-	100,207
Grants and contributions	107,136	-	-	-	-	107,136
Charges for services	19,205	-	37,568	6,000	8,572	71,345
Interest	14,633	4,150	12,331	3,966	1,921	37,001
Other	12,617	-	-	-	-	12,617
Total revenue	454,046	161,144	252,472	61,937	110,995	1,040,594
Expenditures						
Current:						
Legislative	81,115	-	-	-	-	81,115
General government	95,960	-	-	-	-	95,960
Public safety	100,239	-	-	-	-	100,239
Public works	45,949	-	-	-	-	45,949
Health and welfare	29,690	-	-	-	-	29,690
Debt service:						
Principal	-	144,650	175,000	15,000	9,000	343,650
Interest and fiscal charges	-	13,018	91,738	22,545	18,383	145,684
Capital outlay	432,978	-	-	-	-	432,978
Total expenditures	785,931	157,668	266,738	37,545	27,383	1,275,265
Revenue over (under) expenditures	(331,885)	3,476	(14,266)	24,392	83,612	(234,671)
Other financing sources (uses)						
Transfers in	73,545	-	-	-	-	73,545
Transfers (out)	-	-	-	-	(73,545)	(73,545)
Total other financing sources (uses)	73,545	-	-	-	(73,545)	-
Revenue and other sources over (under) expenditures and other uses	(258,340)	3,476	(14,266)	24,392	10,067	(234,671)
Fund balances, beginning of year	581,695	140,364	226,435	68,454	37,174	1,054,122
Fund balances, end of year	\$ 323,355	\$ 143,840	\$ 212,169	\$ 92,846	\$ 47,241	\$ 819,451

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2007

Net change in fund balances - total governmental funds \$ (234,671)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	322,972
Deduct: depreciation expense	(49,066)

Governmental funds recognize revenue as it becomes measurable and available. Certain amounts collected in the current year were earned in prior periods, but did not become available until the current period, when they were recognized in the funds.

Add: fire run charges deferred for availability	9,300
Deduct: collection of special assessments	(274,667)

Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	343,650
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds	191
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Change in net assets of governmental activities	\$ 117,709
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The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
Statement of Revenue, Expenditures
and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended March 31, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenue			
Property taxes	\$ 135,500	\$ 149,141	\$ 13,641
Licenses and permits	40,000	51,107	11,107
Intergovernmental	100,000	100,207	207
Grants and contributions	3,000	107,136	104,136
Charges for services	27,800	19,205	(8,595)
Interest	15,000	14,633	(367)
Other	28,500	12,617	(15,883)
	<u>349,800</u>	<u>454,046</u>	<u>104,246</u>
Expenditures			
Legislative - Township Board	<u>41,150</u>	<u>81,115</u>	<u>39,965</u>
General government:			
Supervisor	33,400	35,751	2,351
Clerk	14,050	13,955	(95)
Elections	4,000	5,531	1,531
Legal	5,000	6,589	1,589
Board of review	1,100	711	(389)
Treasurer	22,100	19,449	(2,651)
Town Hall	10,280	10,615	335
Cemetery	6,000	3,359	(2,641)
Total general government	<u>95,930</u>	<u>95,960</u>	<u>30</u>
Public safety:			
Fire	63,610	54,854	(8,756)
Building inspection	36,370	44,900	8,530
Planning	1,150	200	(950)
Zoning	550	285	(265)
Total public safety	<u>101,680</u>	<u>100,239</u>	<u>(1,441)</u>
Public works - roads	<u>45,040</u>	<u>45,949</u>	<u>909</u>
Health and welfare - ambulance	<u>24,500</u>	<u>29,690</u>	<u>5,190</u>

continued...

PENN TOWNSHIP
Statement of Revenue, Expenditures
and Changes in Fund Balances - Budget and Actual (concluded)
General Fund
For the Year Ended March 31, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Expenditures (concluded)			
Capital outlay	\$ 41,500	\$ 432,978	\$ 391,478
Total expenditures	<u>349,800</u>	<u>785,931</u>	<u>436,131</u>
Revenue (under) expenditures	-	(331,885)	(331,885)
Other financing sources			
Transfers in	<u>-</u>	<u>73,545</u>	<u>73,545</u>
Revenue and other sources (under) expenditures	-	(258,340)	(258,340)
Fund balances, beginning of year	<u>581,695</u>	<u>581,695</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 581,695</u></u>	<u><u>\$ 323,355</u></u>	<u><u>\$ (258,340)</u></u>

The accompanying notes are an integral part of these financial statements.

PENN TOWNSHIP
Statement of Fiduciary Assets and Liabilities
March 31, 2007

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 142</u>
Liabilities	
Due to other governmental units	<u>\$ 142</u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Penn Township (the “government” or “Township”) is a municipal corporation governed by an elected supervisor and a six-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

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 revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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.

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

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 or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

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

Diamond Lake Sewer debt service fund. This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Diamond Lake Sewer administered by the Cassopolis Area Utilities Agency.

Donnell Lake Sewer debt service fund. This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Donnell Lake Sewer administered by the Cassopolis Area Utilities Agency.

Vandalia Water debt service fund. This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Vandalia Water fund administered by the Cassopolis Area Utilities Agency.

Additionally, the government reports the following fund type:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

The *agency funds* account for assets held for other governments in an agency capacity.

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

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 Governmental Accounting Standards Board.

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

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government'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.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 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 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.

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Land improvements	20
Vehicles	3-20
Equipment	3-20

4. *Compensated absences*

The Township's employees are all part-time and are not entitled to any paid vacation or sick leave. Therefore, compensated absences are not accrued in the accompanying financial statements.

5. *Long-term obligations*

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

6. *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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted at the functional level for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended March 31, 2007, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Legislative - Township Board	\$ 41,150	\$ 81,115	\$39,965
General government -			
Supervisor	33,400	35,751	2,351
Elections	4,000	5,531	1,531
Legal	5,000	6,589	1,589
Town Hall	10,280	10,615	335
Public safety -			
Building inspection	36,370	44,900	8,530
Public works -			
Roads	45,040	45,949	909
Health and welfare -			
Ambulance	24,500	29,690	5,190
Capital outlay	41,500	432,978	391,478

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash as shown on the Statement of Net Assets to deposits as classified for note disclosure purposes is as follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 771,692
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	<u>142</u>
	<u>\$ 771,834</u>
Classification of Deposit and Investments:	
Bank deposits (checking accounts, savings accounts and CDs)	\$ 38,716
Governmental money market accounts (Fifth Third LUG)	<u>733,118</u>
	<u>\$ 771,834</u>

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township had no investments that required credit risk ratings at year end.

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, the Township’s entire bank balance was covered by federal depository insurance.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables as of year end are as follows:

	<u>General Fund</u>	<u>Diamond Lake Sewer</u>	<u>Donnell Lake Sewer</u>	<u>Vandalia Sewer</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>	<u>Not Due Within One Year</u>
Accounts receivable	\$ 32,479	\$ -	\$ -	\$ -	\$ -	\$ 32,479	\$ -
Taxes receivable	13,014	-	-	-	-	13,014	-
Special assessments receivable	-	399,560	1,015,396	474,521	250,561	2,140,038	1,831,343
Deferred loans receivable	-	-	-	-	12,000	12,000	12,000
	<u>\$ 45,493</u>	<u>\$ 399,560</u>	<u>\$1,015,396</u>	<u>\$ 474,521</u>	<u>\$ 262,561</u>	<u>\$2,197,531</u>	<u>\$1,843,343</u>

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

C. Capital assets

Capital assets activity for the year ended March 31, 2007, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 21,822	\$ -	\$ -	\$ 21,822
Capital assets being depreciated:				
Land improvements	7,000	-	-	7,000
Buildings and improvements	93,448	110,632	-	204,080
Equipment	12,474	-	-	12,474
Vehicles	330,500	212,340	-	542,840
Total capital assets being depreciated	443,422	322,972	-	766,394
Less accumulated depreciation for:				
Land improvements	1,750	700	-	2,450
Buildings and improvements	67,756	6,151	-	73,907
Equipment	-	1,248	-	1,248
Vehicles	194,475	40,967	-	235,442
Total accumulated depreciation	263,981	49,066	-	313,047
Total capital assets being depreciated, net	179,441	273,906	-	453,347
Governmental activities capital assets, net	\$ 201,263	\$ 273,906	\$ -	\$ 475,169

Depreciation expense of \$49,066 was charged to the function "unallocated depreciation".

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end are as follows:

Accounts payable (General Fund)	\$ 44,239
Accrued interest on long-term debt	<u>3,475</u>
	<u>\$ 47,714</u>

E. Long-term debt

In 1991, 1997 and 2000, special assessment districts were established consisting of portions of Penn, Lagrange, Jefferson and Calvin Townships, all in Cass County, for the purpose of providing wastewater sewer systems to the Diamond and Donnell Lake areas and the Village of Vandalia. These projects are financed through special assessments and one-time tap fees levied on benefiting property owners.

In connection with the above projects, the County issued the following County of Cass, State of Michigan, Cassopolis Area Utilities Authority (Limited Tax General Obligation) Bonds. These bonds mature serially and are secured primarily by a contractual obligation of the four local units to pay the annual installments due, plus interest, and secondarily by the full faith and credit of the County.

The following general obligation bonds are outstanding as of March 31, 2007:

<u>Cass County Bond Issue</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Original Amount</u>	<u>Township Balance</u>
Donnell Lake Sewer	4.6 to 5.5%	2016	\$ 3,030,000	\$ 1,575,000
Diamond Lake Sewer	2.42%	2010	3,024,500	578,600
Vandalia Sewer	4.7 to 8.0%	2039	449,000	378,000
Vandalia Water	4.50%	2041	575,000	<u>486,000</u>
Total				<u>\$ 3,017,600</u>

The changes in general long-term debt are as follows:

Balance, beginning of year	\$ 3,361,250
Payments	<u>343,650</u>
Balance, end of year	<u>\$ 3,017,600</u>
Due within one year	<u>\$ 344,650</u>

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

The annual principal and interest requirements to retire this debt as of March 31, 2007 are as follows:

	Principal	Interest	Total
2008	\$ 344,650	\$ 132,989	\$ 477,639
2009	344,650	120,195	464,845
2010	344,650	107,403	452,053
2011	344,650	94,259	438,909
2012	200,000	82,476	282,476
2013-2017	828,000	253,016	1,081,016
2018-2022	130,000	128,938	258,938
2023-2027	136,000	98,525	234,525
2028-2032	137,000	66,823	203,823
2033-2037	140,000	35,028	175,028
2038-2041	68,000	6,436	74,436
Total	\$ 3,017,600	\$ 1,126,088	\$ 4,143,688

F. Interfund transfers

For the year ended March 31, 2007, interfund transfers consisted of the following:

	Transfers In General Fund
<u>Transfers Out</u>	
Fire Millage	\$ 45,350
Ambulance Millage	28,195
	\$ 73,545

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

PENN TOWNSHIP, MICHIGAN

Notes To Financial Statements

IV. OTHER INFORMATION

A. Property taxes

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund, Fire Millage and Ambulance Millage Special Revenue Funds reflect the 2006 Township levies of .7127 mills and .3563 and .2389 mills, respectively, on the taxable valuation of property located in the Township as of the preceding December 31. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$123,520,843 for the General Fund and the Fire Millage Special Revenue Fund and \$117,052,612 for the Ambulance Millage Special Revenue Fund. The 2006 levy became a lien on properties on December 1, 2006, and was substantially collected in early 2007. Taxes became delinquent on March 1, 2007.

B. Risk management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. During the year, the Township carried commercial insurance to cover all risks of losses. The Township had no settled claims resulting from these risks that exceeded their commercial insurance in any of the past three fiscal years. There was no significant change in coverage during the year.

* * * * *

**COMBINING FUND FINANCIAL
STATEMENTS**

PENN TOWNSHIP
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2007

	<u>Special Revenue Funds</u>			<u>Debt</u>	<u>Totals</u>
	<u>Housing</u>	<u>Fire</u>	<u>Ambulance</u>	<u>Service</u>	
	<u>Rehabilitation</u>	<u>Department</u>	<u>Millage</u>	<u>Vandalia</u>	
	<u>Grant</u>	<u>Millage</u>	<u>Millage</u>	<u>Sewer</u>	
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 40,358	\$ 40,358
Special assessments receivable	-	-	-	250,561	250,561
Deferred loans receivable	12,000	-	-	-	12,000
Total assets	\$ 12,000	\$ -	\$ -	\$ 290,919	\$ 302,919
Liabilities and fund balances					
Liabilities					
Deferred revenue	\$ 12,000	\$ -	\$ -	\$ 243,678	\$ 255,678
Fund balances					
Unreserved, undesignated	-	-	-	47,241	47,241
Total liabilities and fund balances	\$ 12,000	\$ -	\$ -	\$ 290,919	\$ 302,919

PENN TOWNSHIP
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended March 31, 2007

	Special Revenue Funds			Debt	Totals
	Housing Rehabilitation Grant	Fire Department Millage	Ambulance Millage	Service Vandalia Sewer	
Revenue					
Property taxes	\$ -	\$ 45,350	\$ 28,195	\$ -	\$ 73,545
Special assessments	-	-	-	26,957	26,957
Charges for services	-	-	-	8,572	8,572
Interest and other	-	-	-	1,921	1,921
Total revenue	-	45,350	28,195	37,450	110,995
Expenditures					
Debt service:					
Principal	-	-	-	9,000	9,000
Interest and fiscal charges	-	-	-	18,383	18,383
Total expenditures	-	-	-	27,383	27,383
Revenue over expenditures	-	45,350	28,195	10,067	83,612
Other financing (uses)					
Transfer to General Fund	-	(45,350)	(28,195)	-	(73,545)
Revenue over expenditures and other uses	-	-	-	10,067	10,067
Fund balance, beginning of year	-	-	-	37,174	37,174
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 47,241	\$ 47,241

PENN TOWNSHIP
Combining Statement of Fiduciary Assets and Liabilities
Agency Funds
March 31, 2007

	Agency Funds		
	Current Property Tax Collection	Delinquent Property Tax Collection	Total
Assets			
Cash and cash equivalents	\$ 142	\$ -	\$ 142
Liabilities			
Due to other governmental units	\$ 142	\$ -	\$ 142

PENN TOWNSHIP
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended March 31, 2007

	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, End of Year</u>
<u>Current property tax collection fund</u>				
Assets				
Cash and cash equivalents	\$ 142	\$ 4,291,487	\$ 4,291,487	\$ 142
Liabilities				
Due to other governmental units	\$ 142	\$ 4,291,487	\$ 4,291,487	\$ 142
<u>Delinquent property tax collection fund</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 63,247	\$ 63,247	\$ -
Liabilities				
Due to other governmental units	\$ -	\$ 63,247	\$ 63,247	\$ -
<u>Totals - all agency funds</u>				
Assets				
Cash and cash equivalents	\$ 142	\$ 4,354,734	\$ 4,354,734	\$ 142
Liabilities				
Due to other governmental units	\$ 142	\$ 4,354,734	\$ 4,354,734	\$ 142



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

September 28, 2007

To the Board of Trustees of
Penn Township
Vandalia, Michigan

We have audited the financial statements of **Penn Township** for the year ended March 31, 2007, and have issued our report thereon dated September 28, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 23, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Penn Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Penn Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Penn Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Penn Township, either individually or in the aggregate, indicate matters that could have a significant effect on Penn Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Penn Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

Penn Township

Comments and Recommendations

For the Year Ended March 31, 2007

In planning and performing our audit of the financial statements of Penn Township as of and for the year ended March 31, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that certain deficiencies, as described below, constitute material weaknesses.

Significant Deficiencies

Preparation of External GAAP Basis Financial Statements

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Penn Township

Comments and Recommendations

For the Year Ended March 31, 2007

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of
Responsible
Officials:**

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation

Material Weakness

Internal Controls – Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

Condition: As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Cause: Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

Penn Township

Comments and Recommendations

For the Year Ended March 31, 2007

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Township's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Township's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

Effect: As a result of this condition, the government lacks the proper segregation of duties. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

**View of
Responsible
Officials:**

The government has evaluated the cost vs. benefit of establishing sufficient segregation of duties and determined that it will accept the increased risks associated with a lack of proper segregation.

* * * * *