Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

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

Local Government Type	Local Government Name	County
☐ City ☑ Township ☐ Village ☐ Other	OTTO TOWNSHIP	OCEANA

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
3/31/06	8/27/06	9/7/06

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

We affirm that:

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

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

You must check the applicable box for each item below.

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

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

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

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

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

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

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

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

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

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

Certified Public Accountant (Firm Name)			
Brickley DeLong, PLC			
Street Address	City	State	ZIP
500 Terrace Plaza, P.O. Box 999	Muskegon	MI	49443-0999
Accountant Signature		Date	
Brickley DeLong, PLC		9/7/06	

Otto Township
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2006

Otto Township

LIST OF ELECTED OFFICIALS

March 31, 2006

Supervisor ..... Rhonda Cavanaugh-Jibson

Clerk ..... Carol Keck

Treasurer ..... Lillian Carson

Trustees ..... Patricia Budde
Mary Justian

Otto Township

TABLE OF CONTENTS

Management's Discussion and Analysis ..... i - vi

Independent Auditors' Report 1

Basic Financial Statements
- Government-Wide Financial Statements
  - Statement of Net Assets 2
  - Statement of Activities 3
- Fund Financial Statements
  - Governmental Funds
    - Balance Sheet 4
    - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 5
    - Statement of Revenues, Expenditures and Changes in Fund Balances 6
    - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities 7
  - Statement of Fiduciary Assets and Liabilities 8
- Notes to Financial Statements 9

Required Supplementary Information
- Budgetary Comparison Schedule—General Fund 17
- Budgetary Comparison Schedule—Township Improvement Fund 18

As management of Otto Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of Otto Township for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

The General Fund fund balance increased $35,533.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

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

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the 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 only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The Township does not currently have any business-type activities.

Fund 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. The 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 two categories—governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Township Improvement Fund, which are considered major funds. Data from the other fund is presented as an other governmental fund.

Fiduciary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary finds is much like that used for the government-wide financial statements.

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 reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual revenues and expenditures for the General Fund and the Township Improvement Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Township's net assets from governmental activities totaled $203,898.

The increase in current assets reflects the increase in restricted and unrestricted net assets. Restricted net assets increased because revenues received for fire and road millages were not fully spent.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. Certain other governmental net assets are shown as restricted, meaning that they are subject to external restrictions on how they may be used. The unrestricted net assets for governmental activities actually depict a balance of $150,570. This represents the amount of discretionary resources that can be used for general governmental operations.

Net Assets

	Governmental Activities	
	2006	2005
Current assets and other assets	$ 198,833	$ 165,922
Capital assets	5,065	745
Total assets	203,898	166,667
Current liabilities	-	3,192
Net assets		
Invested in capital assets	5,065	745
Restricted	48,263	26,584
Unrestricted	150,570	136,146
Total net assets	$ 203,898	$ 163,475

Governmental Activities

Governmental activities net assets increased by $40,423 during the 2006 fiscal year. Capital grant revenues increased due to a new grant received to purchase new voting machines. Property taxes increased due to growth in the Township's taxable value. The following table depicts these occurrences.

Change in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program revenues		
Charges for services	$ 4,230	$ 1,505
Operating grants	1,519	1,326
Capital grants	4,800	-
General revenues		
Property taxes	63,735	52,827
Grants and contributions not restricted	51,204	50,636
Unrestricted investment earning	2,626	1,162
Miscellaneous	1,807	1,510
Total revenues	129,921	108,966
Expenses:		
General government	60,752	54,878
Public safety	9,950	7,225
Public works	5,692	7,350
Community and economic development	12,304	10,685
Culture and recreation	800	800
Total expenses	89,498	80,938
Change in net assets	40,423	28,028
Net assets - Beginning	163,475	135,447
Net assets - Ending	$ 203,898	$ 163,475

Financial Analysis of the Government's Funds
As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the 2006 fiscal year, the Township's governmental funds reported a combined unreserved fund balance of $151,262. This number represents the unreserved fund balance of $128,916 in the General Fund, $21,654 in the Township Improvement Fund, and $692 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been reserved for perpetual care of $10,000, fire protection of $15,792, and roads of $21,779. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of $198,833, which consists of a fund balance of $166,487 in the General Fund, $21,654 in the Township Improvement Fund and $10,692 in other governmental funds.

General Fund Budget

During the current fiscal year, the Township made several amendments to its original budget. None of these budget amendments were significant.

The only significant variation from the final budget to actual was the property tax revenue which was $5,070 higher than budgeted due to growth in the Township's taxable value.

Capital Assets

The Township investment in capital assets for its governmental activities as of March 31, 2006 totaled $5,065 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment.

The only capital asset addition during the current year was one new voting machine obtained with a grant.

Capital Assets
(Net of Accumulated Depreciation)

	Governmental Activities	
	2006	2005
Land	$ 745	$ 745
Furniture and equipment	4,320	-
Total	$ 5,065	$ 745

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

General Economic Overview

Otto Township has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Township's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised over 88% of the General Fund's revenue sources. In fiscal 2007, state revenue sharing is expected to remain flat and property tax revenues should increase by the rate of inflation.

The Township expects General Fund expenditures in fiscal 2007 to remain consistent with the fiscal 2006 expenditures other than capital outlay. The Township has budgeted $20,000 in improvements to the Township Hall. These expenditures will be paid for with a transfer from the Township Improvement Fund.

Requests for Information

This financial report is designed to provide a general overview of Otto Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Otto Township, 5458 128th Avenue, Rothbury, Michigan 49452 (231) 861-7098.

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 27, 2006

Township Board
Otto Township
Rothbury, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otto Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Otto 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, each major fund, and the aggregate remaining fund information of Otto Township, as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vi and 17 - 18 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Brickley DeLong, PLC

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Otto Township

STATEMENT OF NET ASSETS

March 31, 2006

ASSETS

	Governmental activities
CURRENT ASSETS	
Cash and investments	$ 175,641
Property taxes receivable	12,751
Due from other governmental units	10,441
Total current assets	198,833
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	745
Depreciable	4,320
Total noncurrent assets	5,065
Total assets	203,898

NET ASSETS

NET ASSETS	
Invested in capital assets	5,065
Restricted for:	
Fire protection	15,792
Roads	21,779
Perpetual care	
Expendable	692
Nonexpendable	10,000
Unrestricted	150,570
Total net assets	$ 203,898

The accompanying notes are an integral part of this statement.

Otto Township

STATEMENT OF ACTIVITIES

For the year ended March 31, 2006

Functions/Programs	Expenses	Program Revenue: Charges for services	Program Revenue: Operating grants and contributions	Program Revenue: Capital grants and contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental activities
Governmental activities					
General government	$ 60,752	$ 2,475	$ -	$ 4,800	$ (53,477)
Public safety	9,950	1,375	-	-	(8,575)
Public works	5,692	-	1,519	-	(4,173)
Community and economic development	12,304	380	-	-	(11,924)
Culture and recreation	800	-	-	-	(800)
Total governmental activities	$ 89,498	$ 4,230	$ 1,519	$ 4,800	(78,949)
General revenues					
Property taxes					63,735
Grants and contributions not restricted to specific programs					51,204
Unrestricted investment earnings					2,626
Miscellaneous					1,807
Total general revenues					119,372
Change in net assets					40,423
Net assets at April 1, 2005					163,475
Net assets at March 31, 2006					$ 203,898

The accompanying notes are an integral part of this statement.

Otto Township
BALANCE SHEET
Governmental Funds
March 31, 2006

	General Fund	Township Improvement Fund	Other governmental fund	Total governmental funds
ASSETS				
Cash and investments	$ 143,295	$ 21,654	$ 10,692	$ 175,641
Property taxes receivable	12,751	-	-	12,751
Due from other governmental units	10,441	-	-	10,441
Total assets	$ 166,487	$ 21,654	$ 10,692	$ 198,833
FUND BALANCES				
Reserved for:				
Fire protection	$ 15,792	$ -	$ -	$ 15,792
Roads	21,779	-	-	21,779
Perpetual care	-	-	10,000	10,000
Unreserved, undesignated, reported in				
General Fund	128,916	-	-	128,916
Special revenue funds	-	21,654	-	21,654
Permanent funds	-	-	692	692
Total fund balances	$ 166,487	$ 21,654	$ 10,692	$ 198,833

The accompanying notes are an integral part of this statement.

Otto Township

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance—governmental funds		$ 198,833
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 governmental funds.		
Cost of capital assets	$ 7,410	
Accumulated depreciation	(2,345)	5,065
Net assets of governmental activities in the Statement of Net Assets		$ 203,898

The accompanying notes are an integral part of this statement.

Otto Township

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Governmental Funds

For the year ended March 31, 2006

	General Fund	Township Improvement Fund	Other governmental fund	Total governmental funds
REVENUES				
Property taxes	$ 63,735	$ -	$ -	$ 63,735
Licenses and permits	472	-	-	472
Intergovernmental revenues				
Federal	3,093	-	-	3,093
State	47,720	-	-	47,720
Charges for services	5,760	-	-	5,760
Investment earnings	2,056	197	373	2,626
Other	1,715	-	-	1,715
Total revenues	124,551	197	373	125,121
EXPENDITURES				
Current				
General government	60,272	-	-	60,272
Public safety	9,950	-	-	9,950
Public works	5,692	-	-	5,692
Community and economic development	12,304	-	-	12,304
Culture and recreation	800	-	-	800
Total expenditures	89,018	-	-	89,018
Net change in fund balances	35,533	197	373	36,103
Fund balances at April 1, 2005	130,954	21,457	10,319	162,730
Fund balances at March 31, 2006	$ 166,487	$ 21,654	$ 10,692	$ 198,833

The accompanying notes are an integral part of this statement.

Otto Township

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the year ended March 31, 2006

Net change in fund balances—total governmental funds	$	36,103
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.		
Depreciation expense		(480)
Contributions of capital assets are recorded as revenues in the Statement of Activities, but not in the governmental funds.		4,800
Change in net assets of governmental activities	$	40,423

The accompanying notes are an integral part of this statement.

Otto Township

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

Fiduciary Funds

March 31, 2006

	Agency funds
ASSETS	
Cash and investments	$ 10,588
LIABILITIES	
Due to other governmental units	$ 10,588

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Otto Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity
The Township is a common law township governed by an elected five-member board.

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

Government-Wide and Fund Financial Statements
The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. 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 requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

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.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued
Property taxes, 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 cash is received by the government.

The Township 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.

The Township Improvement Fund is used to hold funds for the Township's future capital improvements.

The Township only has one other governmental fund, the Cemetery Perpetual Care Fund.

Additionally, the Township reports the following fund types:

The Agency Fund accounts for all assets held by the Township on behalf of others in a fiduciary capacity.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

Assets, Liabilities and Net Assets or Equity

Deposits and Investments
The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued
The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

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".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Township totaled approximately $18,259,000. The ad valorem taxes levied consisted of 1.0862 mills for the Township's operating purposes, .8844 mills for fire services and .9777 mills for roads. These amounts are recognized in the General Fund.

Capital Assets
Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued
Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Buildings and improvements	10-50
Furniture and equipment	10

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.

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

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information
Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

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

a. Prior to the first week of March, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.

b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.

c. Not later than the last week in March, the budget is legally enacted through passage of a resolution.

d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued
The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level. The Township Board made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations
During the year ended March 31, 2006, actual expenditures exceeded appropriations for assessor by $2,117 and township hall by $1,187. These overexpenditures were funded with available fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

As of March 31, 2006, the Township voluntarily invested $10,692 in an unrated external investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the Township's investments is the same as the fair value of the Pool.

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

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, $53,653 of the Township's bank balance of $175,688 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have any investments exposed to custodial credit risk.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 745	$ -	$ -	$ 745
Capital assets, being depreciated:				
Buildings and improvements	1,865	-	-	1,865
Furniture and equipment	-	4,800	-	4,800
Total capital assets, being depreciated	1,865	4,800	-	6,665
Less accumulated depreciation:				
Buildings and improvements	1,865	-	-	1,865
Furniture and equipment	-	480	-	480
Total accumulated depreciation	1,865	480	-	2,345
Total capital assets, being depreciated, net	-	4,320	-	4,320
Capital assets, net	$ 745	$ 4,320	$ -	$ 5,065

Depreciation:
Depreciation expense has been charged to the general government function.

NOTE E—OTHER INFORMATION

Risk Management
The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

Contingent Liabilities
Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

NOTE E—OTHER INFORMATION—Continued

Contingent Liabilities—Continued

The Township is party various legal proceedings and claims which normally occur in government operations. Although the outcome of the legal proceedings and claims is not presently determinable, it is the opinion of the Township's management that the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

NOTE F—PENSION PLANS

The Township provides pension benefits for all of its Board members and full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan is administered through Traveler's Life and Annuity, an independent third party. The Township is required to contribute an amount equal to 10 percent of the qualified employees' annual compensation each plan year. For the year ended March 31, 2006, pension expense was $1,694.

NOTE G—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent approximately 37 percent of General Fund revenues.

NOTE H—SUBSEQUENT EVENT

Subsequent to year end, the Township entered into contracts of approximately $20,000 for improvements to the Township hall.

REQUIRED SUPPLEMENTARY INFORMATION

Otto Township
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	$ 56,853	$ 58,665	$ 63,735	$ 5,070
Licenses and permits	1,100	592	472	(120)
Intergovernmental revenues				
Federal	71	220	3,093	2,873
State	45,025	47,319	47,720	401
Charges for services	2,828	2,435	5,760	3,325
Investment earnings	1,100	2,340	2,056	(284)
Other	127	5,303	1,715	(3,588)
Total revenues	107,104	116,874	124,551	7,677
EXPENDITURES				
Current				
General government				
Legislative	10,185	15,445	15,389	56
Supervisor	5,975	6,165	6,014	151
Elections	1,250	1,426	995	431
Board of review	1,255	1,510	1,002	508
Clerk	5,700	6,050	6,597	(547)
Treasurer	6,975	7,050	7,450	(400)
Assessor	11,325	9,910	12,027	(2,117)
Township hall	7,750	7,390	8,577	(1,187)
Cemetery	3,293	3,400	2,221	1,179
Public safety				
Fire protection	9,700	10,100	9,950	150
Public works				
Roads	7,600	5,893	5,692	201
Community and economic development				
Zoning	14,627	13,431	12,304	1,127
Culture and recreation				
Parks	100	100	-	100
Library	800	800	800	-
Total expenditures	86,535	88,670	89,018	(348)
Net change in fund balance	$ 20,569	$ 28,204	35,533	$ 7,329
Fund balance at April 1, 2005			130,954	
Fund balance at March 31, 2006			$ 166,487	

Otto Township

Required Supplementary Information

BUDGETARY COMPARISON SCHEDULE

Township Improvement Fund

For the year ended March 31, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Investment earnings	$ 179	$ 179	$ 197	$ 18
EXPENDITURES	-	-	-	-
Net change in fund balance	$ 179	$ 179	197	$ 18
Fund balance at April 1, 2005			21,457	
Fund balance at March 31, 2006			$ 21,654	

BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

August 27, 2006

Township Board
Otto Township
Rothbury, Michigan

In planning and performing our audit of the financial statements of Otto Township for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Otto Township's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe recommendations 1 and 2 from the prior year are material weaknesses.

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

Brickley DeLong, PLC

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REPORTABLE CONDITIONS

Recommendation 1: Cash receipts should be deposited in a timely manner.

During our detail testing of cash receipts and bank reconciliations, we noted that receipts were not being timely deposited.

The timely deposit of receipts will reduce the possibility of cash receipts being misplaced or misappropriated.

PRIOR YEAR MATERIAL WEAKNESSES AND REPORTABLE CONDITIONS STILL APPLICABLE

We consider the following material weaknesses and reportable conditions contained in our September 21, 2004 letter as still applicable:

MATERIAL WEAKNESSES

Recommendation 1: The clerk should maintain a complete and fully-adjusted trial balance.

Recommendation 2: Bank statements should be reconciled to the Township clerk's records.

REPORTABLE CONDITION

Recommendation 3: The internal control procedures should be further segregated.