

Auditing Procedures Report

Issued under P.A. 2 of 1988, 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 OTTO TOWNSHIP	County OCEANA
Fiscal Year End 3/31/07	Opinion Date 9/21/07	Date Audit Report Submitted to State 9/27/07	

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"/>	NO OTHER DOCUMENTS REQUIRED
Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC		Telephone Number 231-726-5800
Street Address 316 MORRIS AVE., SUITE 500		City MUSKEGON
		State MI
		Zip 49440
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i>	Printed Name TIMOTHY D. ARTER	License Number 10253

for Brickley DeLong, PLC

Otto Township
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2007

Otto Township
LIST OF ELECTED OFFICIALS
March 31, 2007

SupervisorRhonda Cavanaugh-Jibson

Clerk Carol Keck

TreasurerLillian Carson

Trustees Patricia Budde
Mary Justian

Otto Township

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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, 2007. 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 \$24,014.

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 funds is much like that used for the government-wide financial statements.

Notes to 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, 2007, the Township's net assets from governmental activities totaled \$233,783.

Capital assets and the corresponding invested in capital assets net assets category increased due to improvements made to the Township hall. Restricted net assets increased because property tax revenues on special millages for fire and roads exceeded expenditures.

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 \$122,515. This represents the amount of discretionary resources that can be used for general governmental operations.

Net Assets

	Governmental Activities	
	2007	2006
Current assets and other assets	\$ 203,213	\$ 198,833
Capital assets	30,570	5,065
Total assets	233,783	203,898
Net assets		
Invested in capital assets	30,570	5,065
Restricted	80,698	48,263
Unrestricted	122,515	150,570
Total net assets	\$ 233,783	\$ 203,898

Governmental Activities

Governmental activities net assets increased by \$29,885 during the 2007 fiscal year. Revenues are comparable to the previous year. Public safety expenses increased due to additional charges from communities providing fire service to the Township. Public works expenses increased due to the beginning of improvements on Wilke Road. The following table depicts these occurrences.

Change in Net Assets

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues		
Charges for services	\$ 4,024	\$ 4,230
Operating grants	1,577	1,519
Capital grants	6,792	4,800
General revenues		
Property taxes	62,418	63,735
Grants and contributions not restricted	50,252	51,204
Unrestricted investment earning	3,554	2,626
Miscellaneous	<u>1,551</u>	<u>1,807</u>
Total revenues	<u>130,168</u>	<u>129,921</u>
Expenses:		
General government	64,107	60,752
Public safety	15,200	9,950
Public works	10,240	5,692
Community and economic development	9,936	12,304
Culture and recreation	<u>800</u>	<u>800</u>
Total expenses	<u>100,283</u>	<u>89,498</u>
Change in net assets	29,885	40,423
Net assets - Beginning	<u>203,898</u>	<u>163,475</u>
Net assets - Ending	<u>\$ 233,783</u>	<u>\$ 203,898</u>

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 2007 fiscal year, the Township's governmental funds reported a combined unreserved fund balance of \$122,756. This number represents the unreserved fund balance of \$120,044 in the General Fund, \$1,471 in the Township Improvement Fund, and \$1,241 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 \$23,544, and roads of \$45,913. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$203,213, which consists of a fund balance of \$190,501 in the General Fund, \$1,471 in the Township Improvement Fund and \$11,241 in other governmental funds.

General Fund Budget

During the current fiscal year, the Township made several amendments to its original budget. Property tax revenues were amended up as more accurate data on the property tax levy became available. Federal revenues were amended up for national forest monies received by the Township. Fire protection expenditures were amended up because of rate increases by the providers of the Township's fire service and also because of an increase in the number of calls. Road expenditures were amended up as the Township began to work on road improvements on Wilke Road at the end of the year. Capital outlay expenditures were amended up as bids on Township hall improvements were higher than expected. Correspondingly, transfers in from the Township Improvement Fund were amended up to cover these additional costs.

The only significant variation from the final budget to actual was property tax revenue which was \$6,530 higher than budgeted because property tax collections exceeded the Township's projections.

Capital Assets

The Township investment in capital assets for its governmental activities as of March 31, 2007 totaled \$30,570 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment.

Capital asset additions during the current year include improvements to the Township hall and one new voting machine obtained with a grant.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2007	2006
Land	\$ 745	\$ 745
Buildings and improvements	19,533	-
Furniture and equipment	10,292	4,320
Total	<u>\$ 30,570</u>	<u>\$ 5,065</u>

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

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 2008, 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 2008 to remain consistent with the fiscal 2007 expenditures other than for road work. The Township expects to spend approximately \$66,000 on Wilke Road improvements. The work on Wilke Road will be partially paid with revenues from the road millage property tax levy.

The Township is planning to set up separate funds for the fire and road millages in fiscal year 2008. Currently revenues from the two millages are accounted for in the General Fund with unspent monies shown as reserved fund balance.

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

September 21, 2007

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, 2007, 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, 2007, 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 statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Otto Township
STATEMENT OF NET ASSETS
 March 31, 2007

ASSETS

	Governmental activities
CURRENT ASSETS	
Cash and investments	\$ 183,512
Property taxes receivable	12,307
Due from other governmental units	7,394
Total current assets	203,213
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	745
Depreciable	29,825
Total noncurrent assets	30,570
Total assets	233,783

NET ASSETS

NET ASSETS	
Invested in capital assets	30,570
Restricted for:	
Fire protection	23,544
Roads	45,913
Perpetual care	
Expendable	1,241
Nonexpendable	10,000
Unrestricted	122,515
Total net assets	\$ 233,783

The accompanying notes are an integral part of this statement.

Otto Township
STATEMENT OF ACTIVITIES
For the year ended March 31, 2007

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets	
	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	
Governmental activities					
General government	\$ 64,107	\$ 3,568	\$ -	\$ 6,792	\$ (53,747)
Public safety	15,200	196	-	-	(15,004)
Public works	10,240	-	1,577	-	(8,663)
Community and economic development	9,936	260	-	-	(9,676)
Culture and recreation	800	-	-	-	(800)
Total governmental activities	\$ 100,283	\$ 4,024	\$ 1,577	\$ 6,792	(87,890)
General revenues					
Property taxes					62,418
Grants and contributions not restricted to specific programs					50,252
Unrestricted investment earnings					3,554
Miscellaneous					1,551
Total general revenues					117,775
Change in net assets					29,885
Net assets at April 1, 2006					203,898
Net assets at March 31, 2007					\$ 233,783

The accompanying notes are an integral part of this statement.

Otto Township
BALANCE SHEET
 Governmental Funds
 March 31, 2007

	General Fund	Township Improvement Fund	Other governmental fund	Total governmental funds
ASSETS				
Cash and investments	\$ 170,800	\$ 1,471	\$ 11,241	\$ 183,512
Property taxes receivable	12,307	-	-	12,307
Due from other governmental units	7,394	-	-	7,394
Total assets	\$ 190,501	\$ 1,471	\$ 11,241	\$ 203,213
FUND BALANCES				
Reserved for:				
Fire protection	\$ 23,544	\$ -	\$ -	\$ 23,544
Roads	45,913	-	-	45,913
Perpetual care	-	-	10,000	10,000
Unreserved, undesignated, reported in				
General Fund	121,044	-	-	121,044
Special revenue funds	-	1,471	-	1,471
Permanent funds	-	-	1,241	1,241
Total fund balances	\$ 190,501	\$ 1,471	\$ 11,241	\$ 203,213

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, 2007

Total fund balance—governmental funds		\$ 203,213
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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	\$ 33,982	
Accumulated depreciation	<u>(3,412)</u>	<u>30,570</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>233,783</u></u>
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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, 2007

	General Fund	Township Improvement Fund	Other governmental fund	Total governmental funds
REVENUES				
Property taxes	\$ 62,418	\$ -	\$ -	\$ 62,418
Licenses and permits	351	-	-	351
Intergovernmental revenues				
Federal	2,903	-	-	2,903
State	46,976	-	-	46,976
Charges for services	5,714	-	-	5,714
Investment earnings	2,847	158	549	3,554
Other	1,387	72	-	1,459
Total revenues	122,596	230	549	123,375
EXPENDITURES				
Current				
General government	63,039	-	-	63,039
Public safety	15,200	-	-	15,200
Public works	10,240	-	-	10,240
Community and economic development	9,936	-	-	9,936
Culture and recreation	800	-	-	800
Capital outlay	19,780	-	-	19,780
Total expenditures	118,995	-	-	118,995
Excess of revenues over (under) expenditures	3,601	230	549	4,380
OTHER FINANCING SOURCES (USES)				
Transfers in	20,413	-	-	20,413
Transfers out	-	(20,413)	-	(20,413)
Total other financing sources (uses)	20,413	(20,413)	-	-
Net change in fund balances	24,014	(20,183)	549	4,380
Fund balances at April 1, 2006	166,487	21,654	10,692	198,833
Fund balances at March 31, 2007	\$ 190,501	\$ 1,471	\$ 11,241	\$ 203,213

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, 2007

Net change in fund balances—total governmental funds \$ 4,380

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	\$ (1,067)	
Capital outlay	<u>19,780</u>	18,713

Contributions of capital assets are recorded as revenues in the Statement of Activities, but not in the governmental funds.		<u>6,792</u>
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Change in net assets of governmental activities		<u><u>\$ 29,885</u></u>
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The accompanying notes are an integral part of this statement.

Otto Township
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
March 31, 2007

	<u>Agency funds</u>
ASSETS	
Cash and investments	\$ <u>17,298</u>
LIABILITIES	
Due to other governmental units	\$ <u>17,298</u>

The accompanying notes are an integral part of this statement.

Otto Township
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

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.

Otto Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

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.

Otto Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

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 2006 state taxable value for real/personal property of the Township totaled approximately \$19,570,000. The ad valorem taxes levied consisted of 1.0720 mills for the Township's operating purposes, .8729 mills for fire services and .9649 mills for roads. These amounts are recognized in the General Fund.

Capital Assets

Capital assets, which include property 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.

Otto Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
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.

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.

Otto Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE C—DEPOSITS AND INVESTMENTS

As of March 31, 2007, the Township voluntarily invested \$11,241 in an external investment pool (Pool) rated AAA by Fitch Ratings. 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, 2007, \$64,845 of the Township's bank balance of \$194,960 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, 2007 was as follows:

	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 745	\$ -	\$ -	\$ 745
Capital assets, being depreciated:				
Buildings and improvements	1,865	19,780	-	21,645
Furniture and equipment	4,800	6,792	-	11,592
Total capital assets, being depreciated	6,665	26,572	-	33,237

Otto Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE D—CAPITAL ASSETS—Continued

	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
Governmental activities:—Continued				
Less accumulated depreciation:				
Buildings and improvements	\$ 1,865	\$ 247	\$ -	\$ 2,112
Furniture and equipment	480	820	-	1,300
Total accumulated depreciation	2,345	1,067	-	3,412
Total capital assets, being depreciated, net	4,320	25,505	-	29,825
Capital assets, net	\$ 5,065	\$ 25,505	\$ -	\$ 30,570

Depreciation:

Depreciation expense has been charged to the general government function.

NOTE E—INTERFUND TRANSFERS

During the year ended March 31, 2007, the Township Improvement Fund transferred \$20,413 to the General Fund as a reimburse for improvements made to the Township Hall.

NOTE F—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.

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.

Commitments

The Township has entered into a contract for road improvements on Wilke Road as of March 31, 2007 of approximately \$70,000 of which \$4,000 was spent at year end.

Otto Township
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE G—PENSION PLANS

The Township provides pension benefits for all of its elected Board members and certain 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 MetLife of Connecticut, 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, 2007, pension expense was \$2,110.

NOTE H—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent approximately 38 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Otto Township
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 36,702	\$ 55,888	\$ 62,418	\$ 6,530
Licenses and permits	592	352	351	(1)
Intergovernmental revenues				
Federal	220	5,777	2,903	(2,874)
State	47,319	47,149	46,976	(173)
Charges for services	2,435	2,850	5,714	2,864
Investment earnings	1,850	2,607	2,847	240
Other	5,303	2,579	1,387	(1,192)
Total revenues	<u>94,421</u>	<u>117,202</u>	<u>122,596</u>	<u>5,394</u>
EXPENDITURES				
Current				
General government				
Legislative	16,098	18,022	17,156	866
Supervisor	6,150	6,514	6,593	(79)
Elections	3,080	2,331	2,331	-
Board of review	1,175	660	696	(36)
Clerk	6,250	6,942	7,039	(97)
Treasurer	6,950	6,726	6,785	(59)
Assessor	11,010	12,286	12,286	-
Township hall	7,950	7,288	7,288	-
Cemetery	3,825	2,445	2,865	(420)
Public safety				
Fire protection	10,600	15,200	15,200	-
Public works				
Roads	6,200	10,240	10,240	-
Community and economic development				
Zoning	14,050	9,761	9,936	(175)
Culture and recreation				
Parks	100	-	-	-
Library	800	800	800	-
Capital outlay	15,000	19,780	19,780	-
Total expenditures	<u>109,238</u>	<u>118,995</u>	<u>118,995</u>	<u>-</u>
Excess of revenues over (under) expenditures	(14,817)	(1,793)	3,601	5,394
OTHER FINANCING SOURCES				
Transfers in	15,000	20,413	20,413	-
Net change in fund balance	<u>\$ 183</u>	<u>\$ 18,620</u>	24,014	<u>\$ 5,394</u>
Fund balance at April 1, 2006			<u>166,487</u>	
Fund balance at March 31, 2007			<u>\$ 190,501</u>	

Otto Township
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 Township Improvement Fund
 For the year ended March 31, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Investment earnings	\$ -	\$ -	\$ 158	\$ 158
Other	-	-	72	72
Total revenues	-	-	230	230
EXPENDITURES	-	-	-	-
Excess of revenues over (under) expenditures	-	-	230	230
OTHER FINANCING USES				
Transfers out	(15,000)	(20,413)	(20,413)	-
Net change in fund balance	\$ (15,000)	\$ (20,413)	(20,183)	\$ 230
Fund balance at April 1, 2006			21,654	
Fund balance at March 31, 2007			\$ 1,471	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 21, 2007

Township Board
Otto Township
Rothbury, Michigan

In planning and performing our audit of the governmental activities, each major fund and the aggregate remaining fund information of the Otto 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 Otto 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 Otto Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Otto Township's internal control.

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 a 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.

A *material weakness* is a significant deficiency, or a 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.

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, we believe that certain significant deficiencies marked as such on the next page are material weaknesses.

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



SIGNIFICANT DEFICIENCIES

Recommendation 1: The Current Tax Collection Fund should distribute all monies owed other governmental units on a timely basis.

During our audit, we noted that the Current Tax Collection Fund had a significant bank balance outstanding at year end. The General Property Tax Act of the State of Michigan requires that the Township distribute property tax collections to other governmental units for which it collects within 10 business days of the first and fifteenth day of each month. In addition, the Township is required to make all distributions by April 1 of each year.

The timely distribution of funds collected by the Current Tax Collection Fund would ensure compliance with the General Property Tax Act of the State of Michigan.

PRIOR YEAR MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES STILL APPLICABLE

We consider the following item contained in our August 27, 2006 letter as still applicable:

SIGNIFICANT DEFICIENCY

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

We consider the following items 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.

SIGNIFICANT DEFICIENCY

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