

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Pentwater Township	County Oceana
Fiscal Year End 3/31/2007	Opinion Date July 10, 2007	Date Audit Report Submitted to State July 11, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

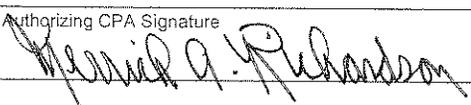
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations):

YES NO **Check each applicable box below.** (See instructions for further detail.)

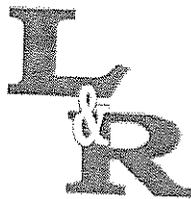
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Layton & Richardson, P.C.	Telephone Number (517) 332-1900	
Street Address 1000 Coolidge Road	City East Lansing	State MI
		Zip 48823
Authorizing CPA Signature 	Printed Name Merrick A. Richardson	License Number 5710

TOWNSHIP OF PENTWATER, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pentwater, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Township of Pentwater, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. 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 opinion.

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 the Township of Pentwater, Michigan as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2007, on our consideration of the Township of Pentwater, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 5 through 7 and 31 through 36 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires 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.

Layton & Richardson PC

Certified Public Accountants

East Lansing, Michigan
July 10, 2007

TOWNSHIP OF PENTWATER
TOWNSHIP BOARD
LIST OF PRINCIPAL INDIVIDUALS

ELECTED OFFICIAL	POSITION
Charles Smith	Supervisor
Barbara Burke	Clerk
Janice Siska	Treasurer
Terry Cluchey	Trustee
Mike Flynn	Trustee

Township of Pentwater

Management's Discussion and Analysis

This discussion and analysis of the Township of Pentwater, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2007. It should be read in conjunction with the Township's financial statements.

Financial Highlights

The Township remains in a strong financial position. Net Assets at March 31, 2007 are \$1,454,574, an increase of \$100,976 over the prior year.

Overview of Financial Statements

This annual report consists of three parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view. They tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund, the General Fund. The fiduciary fund statement provides financial information about activity for which the Township acts solely as an agent for the benefit of those outside of government.

Township of Pentwater as a Whole

The following table shows, in a condensed format, the net assets of the governmental activities as of March 31, 2007 and 2006.

	Governmental Activities MARCH 31,	
	2007	2006
Assets		
Current assets	\$ 897,274	\$ 743,130
Noncurrent assets	<u>615,314</u>	<u>644,325</u>
Total assets	1,512,588	1,387,455
Liabilities		
Current liabilities	51,010	24,535
Long-term liabilities	<u>7,004</u>	<u>9,322</u>
Total liabilities	58,014	33,857
Net Assets		
Invested in capital assets, net of related debt	615,314	644,325
Restricted	299	663
Unrestricted	<u>838,961</u>	<u>708,610</u>
Total net assets	<u>\$1,454,574</u>	<u>\$1,353,598</u>

Township of Pentwater

Management's Discussion and Analysis

The Township's combined net assets increased 7.46% from a year ago, increasing \$100,976, from \$1,353,598. Unrestricted net assets are the portion of net assets that can be used to finance day-to-day operations. At March 31, 2007, \$838,961 of the Township's net assets are unrestricted.

The following table shows the changes of the net assets of the governmental activities during the years ended March 31, 2007 and 2006.

	FOR THE YEARS ENDED MARCH 31,	
	2007	2006
Revenue		
Program revenue		
Operating grants	\$ 44,298	\$ 43,150
Private contributions	10,064	3,807
Charges for services	56,828	27,283
Sales	11,312	5,470
Fees and fines	31,259	28,185
General revenue		
Property taxes	405,835	389,688
Interest	21,783	17,303
Other	<u>1,624</u>	<u>2,558</u>
Total revenue	583,003	517,444
Program Expenses		
Legislative	3,692	2,907
General government	305,172	272,636
Public safety	10,747	10,764
Public works	17,492	26,000
Health and welfare	4,850	4,145
Recreation and culture	<u>140,074</u>	<u>142,520</u>
Total program expenses	<u>482,027</u>	<u>458,972</u>
Change in Net Assets	<u>\$ 100,976</u>	<u>\$ 58,472</u>

Governmental Activities

The Township's total governmental revenues were \$583,003. The largest revenue item is property taxes, representing 69.6% of the revenue. Charges for services represent 9.7%, operating grants comprise 7.6%, fees and fines are 5.3%, with all other revenues making up the remaining 7.8%. Total revenues increased approximately \$65,500 from the prior year. General government expenses account for 63.3% of total program expenses. Recreation and culture comprise 29.1%, with all other programs making up the remaining 7.6% of total expenses.

The General Fund

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, found on page 31 provides detailed information about the most significant fund, not the Township as a whole. The General Fund pays for the Township's general governmental services. The most significant costs relate to general government services, accounting for 86.7% of the total expenditures of the General Fund.

Township of Pentwater

Management's Discussion and Analysis

General Fund Budgetary Highlights

Only minor amendments were made to the budget over the course of the year.

Capital Assets

As of March 31, 2007, the Township had \$961,877 invested in capital assets. Capital assets of the Township include the Township Hall and the improvements completed in prior fiscal years, office, computer and cemetery maintenance equipment, and the Township Library collections available to the public.

Economic Factors and Next Year's Budgets and Rates

It is expected that the Township's property tax millages will be the same next year.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers and customers with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township office.

TOWNSHIP OF PENTWATER
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2007

	ASSETS		
ASSETS	GOVERNMENTAL FUNDS	ADJUSTMENTS	STATEMENT OF NET ASSETS
Cash and cash equivalents	\$ 417,809	\$	\$ 417,809
Investments	178,662		178,662
Due from county and city	25,695		25,695
Due from other funds	275,108		275,108
Capital assets		615,314	615,314
TOTAL ASSETS	\$ 897,274	\$ 615,314	\$ 1,512,588
LIABILITIES AND FUND BALANCE/NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 17,679	\$	\$ 17,679
Accrued payroll taxes	4,081		4,081
Contractor deposit		29,250	29,250
Noncurrent liabilities			
Accrued sick pay		7,004	7,004
TOTAL LIABILITIES	21,760	36,254	58,014
FUND BALANCE/NET ASSETS			
Invested in capital assets, net of related debt		615,314	615,314
Restricted for library books	299		299
Unrestricted	875,215	(36,254)	838,961
TOTAL FUND BALANCE/NET ASSETS	875,514	579,060	1,454,574
TOTAL LIABILITIES AND FUND BALANCE/NET ASSETS	\$ 897,274	\$ 615,314	\$ 1,512,588

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE/NET ASSETS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2007

	GOVERNMENTAL FUNDS	ADJUSTMENTS	STATEMENT OF ACTIVITIES
EXPENDITURES/EXPENSES			
Legislative	\$ 3,692	\$	\$ 3,692
General government	279,420	25,752	305,172
Public safety	10,747		10,747
Public works	17,492		17,492
Health and welfare	4,850		4,850
Recreation and culture	139,133	941	140,074
	<u>455,334</u>	<u>26,693</u>	<u>482,027</u>
PROGRAM REVENUES			
Operating grants	44,298		44,298
Private contributions	10,064		10,064
Charges for services	86,078	(29,250)	56,828
Sales	11,312		11,312
Fees and fines	31,259		31,259
	<u>183,011</u>	<u>(29,250)</u>	<u>153,761</u>
Net program expense	<u>272,323</u>	<u>(55,943)</u>	<u>328,266</u>
GENERAL REVENUES			
Property taxes	405,835		405,835
Interest	21,783		21,783
Other	1,624		1,624
	<u>429,242</u>	<u></u>	<u>429,242</u>
CHANGE IN FUND BALANCE/NET ASSETS	156,919	(55,943)	100,976
FUND BALANCE/NET ASSETS, APRIL 1	<u>718,595</u>	<u>635,003</u>	<u>1,353,598</u>
FUND BALANCE/NET ASSETS, MARCH 31	<u>\$ 875,514</u>	<u>\$ 579,060</u>	<u>\$ 1,454,574</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2007

	GENERAL	CEMETERY
ASSETS		
Cash and cash equivalents	\$ 167,291	\$ 47,177
Investments	15,890	10,000
Due from county and city	13,848	3,264
Due from other funds	<u>225,043</u>	<u>50,065</u>
TOTAL ASSETS	<u>\$ 422,072</u>	<u>\$ 110,506</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 9,654	\$ 180
Accrued payroll taxes	<u>2,455</u>	<u>179</u>
TOTAL LIABILITIES	<u>12,109</u>	<u>359</u>
FUND BALANCE		
Restricted for library books		
Unrestricted, reserved for library expansion		
Unrestricted, unreserved	<u>409,963</u>	<u>110,147</u>
TOTAL FUND BALANCE	<u>409,963</u>	<u>110,147</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 422,072</u>	<u>\$ 110,506</u>

See accompanying notes to financial statements.

LIBRARY	CAPITAL	TOTAL GOVERNMENTAL FUNDS
\$ 149,244	\$ 54,097	\$ 417,809
8,583	152,772	178,662
\$ 157,827	\$ 206,869	\$ 275,108
\$ 157,827	\$ 206,869	\$ 897,274
\$ 7,845	\$	\$ 17,679
1,447		4,081
9,292		21,760
299		299
148,236	206,869	206,869
148,535	206,869	668,346
\$ 157,827	\$ 206,869	\$ 875,514
\$ 157,827	\$ 206,869	\$ 897,274

TOWNSHIP OF PENTWATER
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 MARCH 31, 2007

Total fund balances - governmental funds	\$	875,514
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:		
Land improvements	\$	145,561
Building and improvements		375,662
Office equipment		125,430
Software and computers		73,270
Furniture and fixtures		74,443
Maintenance equipment		35,344
Library collections		122,683
Construction in progress		9,484
Accumulated depreciation		<u>(346,563)</u>
		615,314
Contractor deposit for Planned Unit Development is not recognized as revenue in the statement of activities until it is earned, but is included in the governmental funds as revenue when received		
		(29,250)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Compensated absences		<u>(7,004)</u>
Total net assets - governmental activities	\$	<u><u>1,454,574</u></u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2007

	GENERAL	CEMETERY
REVENUES		
Taxes	\$ 213,190	\$ 53,359
State grants	40,342	
Private contributions		
Charges for services	84,442	1,636
Sales		11,312
Fees and fines	9,245	
Interest	10,103	1,668
Other	1,624	
TOTAL REVENUES	358,946	67,975
EXPENDITURES		
Legislative	3,692	
General government	240,458	38,962
Public safety	10,747	
Public works	17,492	
Health and welfare	4,850	
Recreation and culture		
TOTAL EXPENDITURES	277,239	38,962
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	81,707	29,013
OTHER FINANCING SOURCES (USES)		
Transfers in		
Transfers out		
TOTAL OTHER FINANCING SOURCES (USES)		
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	81,707	29,013
FUND BALANCE, APRIL 1	328,256	81,134
FUND BALANCE, MARCH 31	\$ 409,963	\$ 110,147

See accompanying notes to financial statements.

LIBRARY	CAPITAL	TOTAL GOVERNMENTAL FUNDS
\$ 139,286	\$	\$ 405,835
3,956		44,298
4,694	5,370	10,064
		86,078
22,014		11,312
2,834	7,178	31,259
<u>172,784</u>	<u>12,548</u>	<u>1,624</u>
		612,253
		3,692
		279,420
		10,747
		17,492
139,133		4,850
<u>139,133</u>		<u>139,133</u>
		455,334
<u>33,651</u>	<u>12,548</u>	<u>156,919</u>
<u>(15,000)</u>	15,000	15,000
<u>(15,000)</u>	<u>15,000</u>	<u>(15,000)</u>
18,651	27,548	156,919
<u>129,884</u>	<u>179,321</u>	<u>718,595</u>
\$ <u><u>148,535</u></u>	\$ <u><u>206,869</u></u>	\$ <u><u>875,514</u></u>

TOWNSHIP OF PENTWATER
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCE -
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED MARCH 31, 2007

Net change in fund balances - total governmental funds	\$	156,919
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets		39,085
Less: current year depreciation		(67,687)
Loss on current year capital asset disposals		(409)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences		2,318
Governmental funds report certain revenues however, in the statement of activities, the revenue is not yet recognized as it has not yet been earned by the Township.		
Contractor deposit - Planned Unit Development		(29,250)
Change in net assets of governmental activities	\$	<u><u>100,976</u></u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
BALANCE SHEET
FIDUCIARY FUNDS
MARCH 31, 2007

	TAX ACCOUNT
ASSETS	
Cash	\$ <u>275,520</u>
LIABILITIES	
Due to other funds	\$ 275,108
Due to other governmental units	<u>412</u>
TOTAL LIABILITIES	\$ <u>275,520</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Township operates under an elected Township Board and provides services to its more than 1,500 residents in many areas including community enrichment and development.

The accounting policies of Pentwater Township conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

All funds and account groups under direct control of the Township are included in this report. These funds and account groups are those which meet the criteria established by Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, and Statement on Michigan Governmental Accounting and Auditing No. 5.

The criteria established by GASB for determining which of the Township's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Township.

Blended Component Units

The Library Fund accounts for the financing and operating of the Pentwater Township Library. The Library Fund is reported as a special revenue fund.

The Cemetery Fund accounts for the financing and operating of the Pentwater Township Cemetery. All financial decisions concerning the Cemetery Fund are approved by the Township. The Cemetery Fund is reported as a special revenue fund.

B. Government-Wide and Fund Financial Statements

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

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

B. Government-Wide and Fund Financial Statements - Concluded

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported 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 revenues 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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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 Township of Pentwater.

The Township of Pentwater reports the following major governmental funds:

The General Fund is used to account for all financial transactions, except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township of Pentwater. Revenues are derived primarily from property taxes, state distributions and interest on investments.

The Library Fund accounts for the financing and operating of the Pentwater Township Library.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**C. Measurement Focus, Basis of Accounting, and Financial Statements - Concluded**

The Cemetery Fund accounts for the financing and operating of the Pentwater Township Cemetery. All financial decisions concerning the Cemetery Fund are approved by the Township.

The Capital Fund is used to account for the financial resources to be provided for the possible future expansion of the library facilities.

In addition to the General Fund, the Township of Pentwater reports the following fund types:

Fiduciary Funds are used to account for assets held by a governmental unit as the trustee or agent for others. The Tax Account is the only fiduciary fund of the Township.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township of Pentwater has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the tax fund.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services and privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Township has no proprietary funds.

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

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

D. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township of Pentwater as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

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

Depreciation of all exhaustible capital assets used is charged as an expense against operations in the government-wide statements. Accumulated depreciation is reported in the government-wide statement of net assets.

The straight-line depreciation method is applied over the estimated useful life of all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	20 years
Buildings and improvements	20 years
Office equipment	8 years
Software and computers	5 years
Furniture and fixtures	15 years
Maintenance equipment	8 years
Library collections	10 years

E. Cash and Investments

The Township's cash is considered to be cash on hand, demand deposits, and non-negotiable certificates of deposit with an original maturity of 3 months or less.

All investments are stated at fair value.

F. Inventory of Supplies

Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. As of March 31, 2007, the Township had no significant inventories on hand.

G. Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31, the Township board reviews 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.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

G. Budgets and Budgetary Accounting - Concluded

2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to April 1 the budget is legally adopted.
4. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Any revision to the budget must be approved by the Township Board.
6. Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended.
7. All annual appropriations lapse at year end.

H. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: **PROPERTY TAXES**

Pertinent tax dates are as follows:

Lien date	12/01/06
Levy date	12/01/06
Due date without penalty	02/14/07
Collection date	07/01/06 – 02/28/07

NOTE 3: **CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned.

The Township's deposits are owned by several of the Township's funds. At year end, the carrying amount of the primary government's deposits and cash on hand was \$871,991 and the bank balance was \$892,722. Of the bank balance, \$315,890 was covered by federal depository insurance, and \$576,832 was uninsured and uncollateralized. The government does not have a deposit policy for credit risk.

A reconciliation of cash, cash equivalents and investments follows:

Deposits	
Cash in demand accounts	\$ 339,325
Cash in savings accounts/ money market	353,650
Petty cash	355
Investments	
Certificates of deposit	<u>178,661</u>
	<u>\$ 871,991</u>

NOTE 3: CUSTODIAL CREDIT RISK – DEPOSITS - Concluded

Government-Wide	
Statement of Net Assets	
Cash and cash equivalents	\$ 417,809
Investments	178,662
Statement of Fiduciary Net Assets	
Cash	<u>275,520</u>
TOTAL	\$ <u>871,991</u>
<u>Investments</u>	

Act 196, P. A. 1997, authorizes the Township to deposit and invest in the following:

- (a) Bonds, securities and other direct obligations of the United States or its agencies.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, P.A. 1855, as amended (MCL 21.145 and 21.146).
- (c) Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptance of United States banks.
- (f) Obligation of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Certain mutual funds as defined in the Act.

Investments of the Township are in accordance with statutory authority.

There are three levels of risk by which investments are classified. Category 1 includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Township's name. At March 31, 2007, the Township's investments of \$178,661 were all classified in category 1.

The Township has adopted a formal investment policy, as required by Act 20, P.A. 1943 as amended, that complies with State law.

NOTE 4: CAPITAL ASSETS

A summary of changes in governmental capital assets including internal service fund assets is as follows:

	APRIL 1, 2006	ADDITIONS	DELETIONS	MARCH 31, 2007
Capital Assets Being Depreciated				
Land improvements	\$ 143,311	\$ 2,250	\$	\$ 145,561
Building and improvements	374,637	1,025		375,662
Office equipment	125,430			125,430
Software and computers	80,265	7,337	14,332	73,270
Furniture and fixtures	70,569	3,874		74,443
Maintenance equipment	24,372	10,972		35,344
Library collections	<u>119,216</u>	<u>13,627</u>	<u>10,160</u>	<u>122,683</u>
Total Capital Assets Being Depreciated	<u>937,800</u>	<u>39,085</u>	<u>24,492</u>	<u>952,393</u>
Less: Accumulated Depreciation				
Land improvements	16,421	5,293		21,714
Building and improvements	78,368	10,291		88,659
Office equipment	50,436	15,679		66,115
Software and computers	41,213	15,627	13,923	42,917
Furniture and fixtures	44,417	4,398		48,815
Maintenance equipment	15,774	4,304		20,078
Library collections	<u>56,330</u>	<u>12,095</u>	<u>10,160</u>	<u>58,265</u>
Total Accumulated Depreciation	<u>302,959</u>	<u>67,687</u>	<u>24,083</u>	<u>346,563</u>
Net Capital Assets Being Depreciated	634,841	(28,602)	(409)	605,830
Capital Assets Not Being Depreciated				
Construction in progress	<u>9,484</u>			<u>9,484</u>
NET CAPITAL ASSETS	<u>\$ 644,325</u>	<u>\$(28,602)</u>	<u>\$(409)</u>	<u>\$ 615,314</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	AMOUNT
General government	\$ 39,998
Recreation and culture	<u>27,689</u>
	<u>\$ 67,687</u>

NOTE 5: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the Township Board. P.A. 493 of 2003 removed debt service funds as funds requiring a budget. During the year ended March 31, 2007, Pentwater Township incurred expenditures in excess of appropriations as follows:

	BUDGET	ACTUAL	UNFAVORABLE VARIANCE
GENERAL FUND			
Legislative			
Township Board	\$ 3,552	\$ 3,692	\$(140)
General Government			
Board of Review	1,501	1,728	(227)
Treasurer	28,534	28,598	(64)
Public Safety			
Liquor control	630	639	(9)

NOTE 6: 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; injuries to employees; and natural disasters. It is the policy of the Township to purchase commercial insurance for most risks of loss to which it is exposed.

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

FUND	INTERFUND RECEIVABLES	FUND	INTERFUND PAYABLES
General	\$ 225,043	Tax Account	\$ 275,108
Cemetery	<u>50,065</u>		<u> </u>
	\$ <u>275,108</u>		\$ <u>275,108</u>

NOTE 8: FUND BALANCE DESIGNATIONS

Designations of unrestricted fund balances in governmental funds indicate the Township's tentative plans for use of financial resources in a future period.

NOTE 9: **ENDOWMENT FUND**

Under a Designated Fund Agreement between the George W. Hansen and Edna Mae Hansen Living Trust (donors) and the Community Foundation for Oceana County (Foundation), dated February 2, 2005, the George Wilbur and Edna Hansen Endowment Fund (Endowment Fund) was created. The Donors contributed \$100,000 to the Endowment Fund. The Designated Fund Agreement states that the Endowment Fund is to be held by the Foundation as its property and not as a trustee. The Designated Fund Agreement also stipulates that each year the income from the Endowment Fund, as determined in accordance with the Foundation's policies, shall be distributed 50% to the Pentwater Township Library and 50% to another charitable organization. The Designated Fund Agreement also stipulates that the Pentwater Township Library is to use any future income of the Endowment Fund and distributed by the Foundation, 50% for the purchase of books and 50% to purchase other educational materials in memory of George Wilbur and Edna Hansen. As the Endowment Fund is held by the Foundation as its property, no amount is included in the financial statements of the Township of Pentwater. The Library Fund received \$2,150 from the Foundation's Endowment Fund during the year ended March 31, 2007.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes				
Taxes - 2006 levy	\$ 172,949	\$ 172,949	\$ 185,876	\$ 12,927
Trailer taxes	3,246	3,246	247	(2,999)
Payment in lieu of taxes	1,500	1,500	1,505	5
Penalties and interest	5,000	5,000	25,562	20,562
Total Taxes	<u>182,695</u>	<u>182,695</u>	<u>213,190</u>	<u>30,495</u>
State Grants				
Shared revenues	36,000	37,800	39,744	1,944
Liquor control	585	585	598	13
Total State Grants	<u>36,585</u>	<u>38,385</u>	<u>40,342</u>	<u>1,957</u>
Charges for Services				
PTAF and collection fees	51,864	51,864	49,233	(2,631)
Licenses and permits	1,750	1,750	30,325	28,575
Transfer station	6,000	6,000	4,884	(1,116)
Total Charges for Services	<u>59,614</u>	<u>59,614</u>	<u>84,442</u>	<u>24,828</u>
Other Revenue				
Interest	4,000	4,000	10,103	6,103
Franchise fees	7,800	7,800	9,245	1,445
Miscellaneous	2,150	2,150	1,624	(526)
Total Other Revenue	<u>13,950</u>	<u>13,950</u>	<u>20,972</u>	<u>7,022</u>
TOTAL REVENUES	<u>292,844</u>	<u>294,644</u>	<u>358,946</u>	<u>64,302</u>
EXPENDITURES				
LEGISLATIVE				
Township Board				
Township Board trustee wages	3,300	3,300	3,550	(250)
Township Board trustee fringes	252	252	142	110
TOTAL LEGISLATIVE	<u>3,552</u>	<u>3,552</u>	<u>3,692</u>	<u>(140)</u>
GENERAL GOVERNMENT				
Supervisor				
Salaries and wages	11,520	11,520	11,520	
Fringe benefits	882	882	881	1
Total Supervisor	<u>12,402</u>	<u>12,402</u>	<u>12,401</u>	<u>1</u>

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
EXPENDITURES - Continued				
GENERAL GOVERNMENT - Concluded				
Election				
Election wages	\$ 3,000	\$ 2,136	\$ 1,904	\$ 232
Election travel	75	75	20	55
Election education	200	200	162	38
Miscellaneous	200	843	743	100
Total Election	<u>3,475</u>	<u>3,254</u>	<u>2,829</u>	<u>425</u>
Assessor				
Salaries and wages	<u>36,720</u>	<u>30,837</u>	<u>30,836</u>	<u>1</u>
Clerk				
Salaries and wages	38,578	37,363	36,995	368
Fringe benefits	<u>2,951</u>	<u>2,951</u>	<u>2,805</u>	<u>146</u>
Total Clerk	<u>41,529</u>	<u>40,314</u>	<u>39,800</u>	<u>514</u>
Board of Review				
Salaries and wages	1,394	1,394	1,605	(211)
Fringe benefits	<u>107</u>	<u>107</u>	<u>123</u>	<u>(16)</u>
Total Board of Review	<u>1,501</u>	<u>1,501</u>	<u>1,728</u>	<u>(227)</u>
Treasurer				
Salaries and wages	25,729	26,566	26,566	
Fringe benefits	<u>1,968</u>	<u>1,968</u>	<u>2,032</u>	<u>(64)</u>
Total Treasurer	<u>27,697</u>	<u>28,534</u>	<u>28,598</u>	<u>(64)</u>
Township Hall				
Supplies	5,500	5,500	4,807	693
Professional services	25,000	75,396	80,360	(4,964)
Drain assessments	3,943	3,943	3,818	125
Dues and subscriptions	2,500	816	339	477
Insurance and bonds	5,700	7,942	7,601	341
Printing and publishing	3,000	4,084	3,980	104
Utilities and telephone	4,000	4,000	3,408	592
Repairs and maintenance	12,500	14,817	12,336	2,481
Capital outlay	56,998	57,332	3,481	53,851
Travel	1,000	1,132	1,132	
Education and training	1,500	2,364	2,364	
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>640</u>	<u>360</u>
Total Township Hall	<u>122,641</u>	<u>178,326</u>	<u>124,266</u>	<u>54,060</u>
TOTAL GENERAL GOVERNMENT	<u>245,965</u>	<u>295,168</u>	<u>240,458</u>	<u>54,710</u>

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
EXPENDITURES - Continued				
PUBLIC SAFETY				
Police - Liquor Control				
Salaries and wages	\$ 580	\$ 580	\$ 594	\$ (14)
Fringe benefits	50	50	45	5
Total Police - Liquor Control	<u>630</u>	<u>630</u>	<u>639</u>	<u>(9)</u>
Zoning and Planning Commission				
Salaries and wages	7,618	7,618	7,618	
Fringe benefits	583	583	583	
Total Zoning and Planning Commission	<u>8,201</u>	<u>8,201</u>	<u>8,201</u>	
Assessor Plat				
Salaries and wages	3,000	2,220	1,899	321
Fringe benefits	230	63	8	55
Total Assessor Plat	<u>3,230</u>	<u>2,283</u>	<u>1,907</u>	<u>376</u>
TOTAL PUBLIC SAFETY	<u>12,061</u>	<u>11,114</u>	<u>10,747</u>	<u>367</u>
PUBLIC WORKS				
Street Lighting	500	500	474	26
Highway, Streets and Bridges				
Repairs and maintenance	2,000	4,161	2,461	1,700
Capital outlay	5,000	5,000		5,000
Total Highway, Streets and Bridges	<u>7,000</u>	<u>9,161</u>	<u>2,461</u>	<u>6,700</u>
Sanitation				
Salaries and wages	5,356	5,299	5,109	190
Fringe benefits	410	410	385	25
Repairs and maintenance	1,000	1,000		1,000
Landfill rental	10,000	10,000	9,063	937
Total Sanitation	<u>16,766</u>	<u>16,709</u>	<u>14,557</u>	<u>2,152</u>
TOTAL PUBLIC WORKS	<u>24,266</u>	<u>26,370</u>	<u>17,492</u>	<u>8,878</u>

TOWNSHIP OF PENTWATER
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL - Concluded
 GENERAL FUND
 FOR THE YEAR ENDED MARCH 31, 2007

	BUDGETED AMOUNTS			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
EXPENDITURES - Concluded				
HEALTH AND WELFARE				
Recreation fund				
Repairs and maintenance	\$ 6,000	\$ 3,850	\$ 3,850	\$
Capital outlay	1,000	1,000	1,000	
TOTAL HEALTH AND WELFARE	7,000	4,850	4,850	
 TOTAL EXPENDITURES	292,844	341,054	277,239	63,815
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(46,410)	81,707	128,117
 FUND BALANCE, APRIL 1	328,256	328,256	328,256	
 FUND BALANCE, MARCH 31	\$ 328,256	\$ 281,846	\$ 409,963	\$ 128,117

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CEMETERY FUND
FOR THE YEAR ENDED MARCH 31, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 50,437	\$ 50,437	\$ 53,359	\$ 2,922
Charges for services	1,300	1,300	1,636	336
Sales	4,700	4,700	11,312	6,612
Interest	600	600	1,668	1,068
TOTAL REVENUES	<u>57,037</u>	<u>57,037</u>	<u>67,975</u>	<u>10,938</u>
EXPENDITURES				
Committee member	1,250	1,250	1,050	200
Salaries and wages	12,000	12,000	10,136	1,864
Fringes	1,000	1,000	738	262
Supplies	1,500	1,661	1,840	(179)
Professional services	500	1,060	1,060	
Dues and subscriptions	60	65	65	
Insurance and bonds	1,300	1,312	1,312	
Printing and publishing	200	200	120	80
Utilities	1,500	1,572	1,572	
Repairs and maintenance	15,000	12,225	7,225	5,000
Capital outlay	11,827	13,792	13,792	
Land acquisition	10,000	10,000		10,000
Transportation and travel	150	150		150
Education and training	250	250		250
Miscellaneous	500	500	52	448
TOTAL EXPENDITURES	<u>57,037</u>	<u>57,037</u>	<u>38,962</u>	<u>18,075</u>
EXCESS OF REVENUES OVER EXPENDITURES			29,013	29,013
FUND BALANCE, APRIL 1	<u>81,134</u>	<u>81,134</u>	<u>81,134</u>	
FUND BALANCE, MARCH 31	<u>\$ 81,134</u>	<u>\$ 81,134</u>	<u>\$ 110,147</u>	<u>\$ 29,013</u>

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LIBRARY FUND
FOR THE YEAR ENDED MARCH 31, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 131,360	\$ 140,300	\$ 139,286	\$ (1,014)
State grants	3,080	3,080	3,956	876
Private contributions	3,200	5,320	4,694	(626)
Fees and fines	17,515	22,000	22,014	14
Interest and other	1,600	2,500	2,834	334
TOTAL REVENUES	<u>156,755</u>	<u>173,200</u>	<u>172,784</u>	<u>(416)</u>
EXPENDITURES				
Salaries and fringe benefits	82,800	82,800	78,569	4,231
Library materials	16,485	18,000	17,375	625
Office supplies and postage	3,975	3,975	3,798	177
Contract and professional services	6,935	6,935	6,278	657
Computer expense	4,300	6,000	5,047	953
Communications	4,850	4,850	3,686	1,164
Utilities and maintenance	12,800	12,800	8,946	3,854
Insurance	2,975	3,100	3,052	48
Capital outlay	5,000	12,000	11,210	790
Miscellaneous	1,500	1,500	1,172	328
TOTAL EXPENDITURES	<u>141,620</u>	<u>151,960</u>	<u>139,133</u>	<u>12,827</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	15,135	21,240	33,651	12,411
OTHER FINANCING USES				
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	135	6,240	18,651	12,411
FUND BALANCE, APRIL 1	<u>129,884</u>	<u>129,884</u>	<u>129,884</u>	
FUND BALANCE, MARCH 31	<u>\$ 130,019</u>	<u>\$ 136,124</u>	<u>\$ 148,535</u>	<u>\$ 12,411</u>



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pentwater, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township of Pentwater, Michigan's basic financial statements and have issued our report thereon dated July 10, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Pentwater, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Pentwater, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Pentwater, Michigan's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Pentwater, Michigan'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 Township of Pentwater, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Township of Pentwater, Michigan's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. See finding number 07-A.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Pentwater, Michigan's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Pentwater, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Pentwater Township, in a separate letter dated July 10, 2007.

The Township of Pentwater, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Township of Pentwater, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Township Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Laaton + Richardson PC
Certified Public Accountants

July 10, 2007
East Lansing, Michigan

TOWNSHIP OF PENTWATER
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2007

FINDINGS

- 07-A The Township of Pentwater, Michigan, does not have an individual with sufficient knowledge and understanding of generally accepted accounting principles to properly apply them in preparing its financial statements.

RESPONSES

- 07-A The Township of Pentwater, Michigan, has individuals who are knowledgeable and competent in performing their daily accounting functions. The Township Board reviews and approves all expenditures and monthly financial information. It would not be cost effective for the Township to hire an individual with sufficient current knowledge of generally accepted accounting principles.



LETTER OF COMMENTS AND RECOMMENDATIONS

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

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We have audited the financial statements of the TOWNSHIP OF PENTWATER, MICHIGAN, for the year ended March 31, 2007, and have issued our report thereon dated July 10, 2007. As part of the audit process, we tested and evaluated the system of internal accounting controls and the procedures used to record the financial transactions of the Township of Pentwater, Michigan. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements. We have issued our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Governmental Auditing Standards dated July 10, 2007.

Although not considered to be significant deficiencies or material weaknesses, the following recommendations are provided for your consideration to improve the efficiency and effectiveness of control procedures:

PRIOR YEAR RECOMMENDATIONS

05-1 Segregation of Duties

The Treasurer and Clerk are authorized signers on bank accounts. Additionally, the Deputy Treasurer and Deputy Clerk are authorized signers in the absence of the Treasurer and Clerk, respectively. The Treasurer, Clerk and their Deputies all process cash receipts. The Treasurer and Deputy Clerk reconcile the monthly bank statements with their accounting records.

Strong internal controls call for segregation of duties, with the intent of limiting the responsibilities any one individual may have over the entire recording process of transactions. Segregation of duties is difficult to accomplish when the number of staff members is small. In light of this, we recommend that the Township Supervisor receive the bank statements directly from the bank, and review them four times per year. The Supervisor should request the bank statements for review at random. The Supervisor should examine the bank statements and all documents returned with the statements for any unusual items, and ask to see supporting documentation for anything questionable. The Supervisor should initial and date the bank statements upon being satisfied that all items are appropriate. This periodic review will provide improved internal controls over the cash disbursements and receipts of the Township. **This has been implemented, however, we did not observe the Supervisors' initials and date documenting implementation.**

PRIOR YEAR RECOMMENDATIONS - Concluded

05-2 Cash Disbursements – General Fund

Supporting Documentation

We noted instances of payment for routine maintenance services with no supporting documentation in the form of a written service agreement or invoices. We recommend that verbal agreements be put into writing and be signed by the Township and the vendor. Further, we recommend that supporting documentation be required for all vendor disbursements. This documentation can be in the form of a vendor invoice, memo or check request indicating purpose of disbursement, payee and date(s) of services. **This has not been implemented.**

06-1 Cash Disbursements

We noted instances during our testing of cash disbursements, where the supporting documentation was not retained. Strong internal controls require that appropriate, approved supporting documentation be required for all cash disbursements, and that this documentation be retained to allow subsequent verification as to the accuracy of the expenditure. **This has not been implemented.**

CURRENT YEAR RECOMMENDATIONS

07-1 Documentation of Delinquent Personal Property Tax and Payment in Lieu Remittances to other Governments

We noted instances of tax remittances received by the Township and portions of which are paid to other units of government where the supporting documentation detailing the payments was not retained with the check stub or in the cash disbursements file. To strengthen controls over such payments, it is important to retain the supporting documentation to allow verification of the calculations if questions should arise, and to help prevent accidental duplicate payment.

07-2 Voided Checks

We noted the current practice is to destroy voided checks. To improve controls over voided checks, we recommend that all voided checks be retained with the signature corner of the check removed and "VOID" written on the front of the check. Voided checks should be entered into the QuickBooks files as voided checks, and should be attached to and filed with the check stub which is filed in numeric order.

07-3 Documentation of Cleaning Service Payments

We noted payments for office cleaning do not have supporting documentation. We recommend the use of a standard check request form to document such disbursements. A standardized form, such as the sample attached to this letter, will strengthen controls over such payments and provide documentation of proper approvals.

CURRENT YEAR RECOMMENDATIONS – Concluded

07-4 Cash Receipts - Payer

We noted instances where cash receipts listed the payer as the staff member who received the payment, not the individual who actually made the payment. We also noted instances of the QuickBooks cash receipt detail records showing the name of the staff member rather than the name of the actual payer. To improve controls over cash receipts, we recommend that both the manual cash receipt and the QuickBooks entry use the name of the payer rather than the name of the staff member receiving the payment.

07-5 Cash Receipts – Purpose

We noted instances where the manual cash receipt issued included a note as to the purpose of the cash receipt, however, such memo information was not included in the QuickBooks cash receipt record. To improve and strengthen controls over cash receipts, we recommend the QuickBooks record of cash receipts include memo entries as to the purpose of the cash receipt.

07-6 Cash Receipts – Library

We noted instances where cash receipts were filled out with the “Received of” line indicating the purpose of the cash receipt and the name of the payer not being listed. We recommend the “Received of” line of cash receipts be used to list the name of the payer, and the purpose of the cash receipt be listed on the memo lines below the name on the cash receipt. This will strengthen internal controls over cash receipts and help assure any donations received with temporary restrictions will be properly recorded.

07-7 Sale of Used Equipment – Cemetery

We became aware that old cemetery maintenance equipment that has been retired or replaced may be sold, but the sale of such items is not adequately documented. When sales of equipment occur, it is important that the equipment sold (or otherwise disposed of) is properly documented so that it may be removed from the detail depreciation records. We recommend that all equipment sales be documented with the name of the purchaser, amount and date of sale, and a detailed description of the equipment sold. This will provide improved accountability over capital assets.

We are grateful to the officials and employees of Pentwater Township for the assistance and cooperation which we received during the audit, and we thank them.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
July 10, 2007