

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 Middle Branch Township	County Osceola
Fiscal Year End 3-31-07	Opinion Date June 26, 2007	Date Audit Report Submitted to State September 27, 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 checked="" type="checkbox"/>	Letter of Significant Deficiencies and Material Weakness
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.	Telephone Number 231-775-9789	
Street Address 134 West Harris Street	City Cadillac	State Zip MI 49601
Authorizing CPA Signature 	Printed Name Jonathan E. Damhof, C.P.A.	License Number 1101022613

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY

MARION, MICHIGAN

MARCH 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

MARCH 31, 2007

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-viii
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance to the Statement of Activities	6
Fiduciary Funds	
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8-17
Required Supplementary Information	
Budgetary Comparison Schedule - Major Governmental Funds	18
Individual Fund Financial Statements	
Agency Fund	
<u>Current Tax Collection Fund</u>	
Statement of Changes in Assets and Liabilities	19
Other Information	
Statement of 2006 Tax Roll	20

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June 26, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Middle Branch Township
Marion, Michigan

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Middle Branch Township, Marion, Michigan, 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 on pages iii through viii and budgetary comparison information on page 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Middle Branch Township, Marion, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Middle Branch Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Middle Branch Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2007.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$329,793. Of this amount, \$87,302 may be used to meet the township's ongoing obligations to citizens and creditors.

- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$87,302.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's 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 This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

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 underlying 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 distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include legislative, general government and administration, public safety, public works, recreation and culture, and other functions. The township supports no business-type activities.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Township are governmental 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 the governmental funds 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. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, 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 near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$329,793 at March 31, 2007, meaning the Township’s assets were greater than its liabilities by this amount.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

**Middle Branch Township
Net Assets as of March 31, 2007**

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 97,443
Non Current Assets	
Capital Assets	316,383
Less: Accumulated Depreciation	<u>(73,892)</u>
Total Non Current Assets	<u>242,491</u>
Total Assets	<u><u>\$ 339,934</u></u>
Liabilities	
Current Liabilities	<u>\$ 10,141</u>
Net Assets	
Invested in Capital Assets	242,491
Unrestricted	<u>87,302</u>
Total Net Assets	<u>329,793</u>
Total Liabilities and Net Assets	<u><u>\$ 339,934</u></u>

The most significant portions of the Township's Net Assets are invested in capital assets.

At the end of the current fiscal year, the Township is able to report positive balance in net assets for the government as a whole.

The total net assets of the Township increased by \$2,649 in this fiscal year, which is a good indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

**Middle Branch Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2007**

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 5,197
Operating Grants and Contributions	1,970
Capital Grants and Contributions	6,500
General Revenues	
Taxes	22,727
State Shared Revenue	58,598
Unrestricted Investment Earnings	3,827
Other	<u>1,299</u>
Total Revenues	<u>100,118</u>
<u>Expenses</u>	
Legislative	5,246
General Government	67,795
Public Safety	10,411
Public Works	9,686
Recreation and Cultural	858
Other Functions	<u>3,473</u>
Total Expenses	<u>97,469</u>
Changes in Net Assets	2,649
NET ASSETS - Beginning of Year	<u>327,144</u>
NET ASSETS - End of Year	<u><u>\$ 329,793</u></u>

Governmental Activities

During the fiscal year ended March 31, 2007, the Township's net assets increased by \$2,649 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

A significant part of the revenue for all governmental activities of Middle Branch Township comes from property taxes. The Township levied 0.8718 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Township's governmental activities expenses are dominated by general governmental expenses that total \$67,795. Public safety expenses represented the next largest expense at \$10,411 followed by public works at \$9,686. Depreciation expense added \$5,615.

Financial Analysis of the Government's Funds

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

General Fund – The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund and total fund balance was \$87,302. All of the General Fund's activities except for elections activity, ended the year with expenditures below budgeted amounts. The elections activity was funded by available fund balance.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2007 amounted to \$242,491 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was 158.68% entirely in the governmental activities.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually. A summary of capital asset categories is illustrated below:

**Middle Branch Township
Capital Assets as of March 31, 2007**

	Governmental Activities
Land	\$ 79,218
Buildings	217,676
Machinery and Equipment	19,489
	<hr/>
	316,383
Less Accumulated Depreciation	(73,892)
	<hr/>
Net Capital Assets	\$ 242,491

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Long-Term Debt. As of March 31, 2007, the Township had no outstanding debt

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Middle Branch Township at 2963 15 Mile Road, Marion, Michigan 49665.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	\$ 75,039
Receivables	
External Parties (Fiduciary Funds)	5,133
Due from Other Governments	14,186
Taxes	3,085
	<hr/>
Total Current Assets	97,443
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	79,218
Buildings	217,676
Machinery and Equipment	19,489
	<hr/>
	316,383
Less Accumulated Depreciation	(73,892)
Net Capital Assets	242,491
	<hr/>
TOTAL ASSETS	\$ 339,934
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 10,072
Payroll Withholdings	69
	<hr/>
Total Current Liabilities	10,141
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets	242,491
Unrestricted	87,302
	<hr/>
TOTAL NET ASSETS	\$ 329,793
	<hr/> <hr/>

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

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS
	EXPENSES	CHARGES FOR SERVICES	OPERATING	CAPITAL	TOTALS
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 5,246	\$ 0	\$ 0	\$ 0	\$ (5,246)
General Government	67,795	5,197	1,970	6,500	(54,128)
Public Safety	10,411	0	0	0	(10,411)
Public Works	9,686	0	0	0	(9,686)
Recreation and Culture	858	0	0	0	(858)
Other Functions	3,473	0	0	0	(3,473)
Total Governmental Activities	\$ 97,469	\$ 5,197	\$ 1,970	\$ 6,500	(83,802)
<u>GENERAL REVENUES</u>					
					22,727
					58,598
					3,827
					1,299
Total General Revenues					86,451
Change in Net Assets					2,649
<u>NET ASSETS</u> - Beginning of Year					327,144
<u>NET ASSETS</u> - End of Year					\$ 329,793

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

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2007

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 75,039
Due from Other Funds	5,133
Due from Other Governments	14,186
Taxes Receivable	3,085
TOTAL ASSETS	<u>\$ 97,443</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 10,072
Payroll Withholdings	69
Total Liabilities	<u>10,141</u>
 <u>FUND BALANCE</u>	
Unreserved	
Undesignated	<u>87,302</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 97,443</u>

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

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balances for Governmental Funds \$ 87,302

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 79,218	
Buildings	217,676	
Machinery and Equipment	19,489	
Accumulated Depreciation	<u>(73,892)</u>	242,491

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 329,793

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

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2007

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 22,727
State Grants	67,068
Charges for Services	3,970
Interest and Rents	5,054
Other Revenues	1,299
	<hr/>
Total Revenues	100,118
	<hr/>
<u>EXPENDITURES</u>	
Legislative	5,246
General Government	216,545
Public Safety	10,411
Public Works	9,686
Recreation and Culture	858
Other Functions	3,473
	<hr/>
Total Expenditures	246,219
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	(146,101)
	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	233,403
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 87,302
	<hr/> <hr/>

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

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2007

Net change in Fund Balance - Total Governmental Funds	\$ (146,101)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Capital Outlay	154,365
Depreciation Expense	<u>(5,615)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,649</u></u>

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

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2007

	<u>ASSETS</u>	<u>AGENCY</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 25,965
		<hr/> <hr/>
<u>LIABILITIES</u>		
Refunds Payable to Taxpayers		\$ 1,031
Due to Other Governments		19,801
Due to Other Funds		5,133
		<hr/> <hr/>
		\$ 25,965

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

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Middle Branch Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

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. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Middle Branch 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.

Additionally Middle Branch Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from 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 the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. 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 date of acquisition.

I. The Township authorized the Township Treasurer to invest funds as follows:

- a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. In repurchase agreements consisting of instruments listed in subdivision (a).
- e. In bankers' acceptances of United States banks.
- f. In obligations of this state or any of its political subdivisions that at the time of purchase are rates as investment grade by not less than 1 standard rating service.
- g. In mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

- h. In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 125.501 to 124.512.
 - i. In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCI 129.111 to 129.118.
- II. A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- III. Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- IV. As used in this section "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. *Receivables and Payables*

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

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and two-thirds of county taxes are levied and due July 1, and become delinquent after September 15. The remaining millages are levied and due December 1, and become delinquent after February 15. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of the Middle Branch Township totaled \$20,825,518, on which ad valorem taxes levied consisted of 0.8718 mills for the Middle Branch Township operating purposes. This levy raised approximately \$18,151 for operating purposes.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns 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 (amount not rounded) and an estimated useful life in excess of one year. 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 date of donation.

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

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

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Equipment	4

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with 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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 18, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Elections	\$ 6,650	\$ 11,042

These overages were funded by available fund balance.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with Citizens Bank in Marion, Michigan and Central Michigan Community Federal Credit Union in Clare, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

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

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's 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.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, none of the government's bank balance of \$115,487 was exposed to custodial credit risk because it was insured and collateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government 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's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>Total</u>
Receivables	
Taxes	\$ 3,085
Due from Other Governments	<u>14,186</u>
	<u>\$ 17,271</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

C. Capital Assets

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 79,218	\$ 0	\$ 0	\$ 79,218
Construction in Progress	4,195	0	4,195	0
Total capital assets, not being depreciated	<u>83,413</u>	<u>0</u>	<u>4,195</u>	<u>79,218</u>
Capital assets, being depreciated				
Buildings	65,616	152,060	0	217,676
Machinery and Equipment	12,989	6,500	0	19,489
Total capital assets, being depreciated	<u>78,605</u>	<u>158,560</u>	<u>0</u>	<u>237,165</u>

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

Less accumulated depreciation for:				
Buildings	\$ 65,616	\$ 1,014	\$ 0	\$ 66,630
Machinery and Equipment	2,661	4,601	0	7,262
	<hr/>			
Total accumulated depreciation	68,277	5,615	0	73,892
	<hr/>			
Total capital assets, being depreciated, net	10,328	152,945	0	163,273
	<hr/>			
Governmental activities capital assets, net	\$ 93,741	\$ 152,945	\$ 4,195	\$ 242,491
	<hr/> <hr/>			

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	<u>\$ 5,615</u>
Construction Commitments:	
None	

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2007, were:

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 5,133	\$ 0
Fiduciary Funds		
Current Tax Collection	0	5,133
	<hr/>	
	\$ 5,133	\$ 5,133
	<hr/> <hr/>	
Amount expected to be repaid within one year:	<u>\$ 5,133</u>	

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

E. Long-Term Debt

There are no long-term debts outstanding at March 31, 2007.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

IV. OTHER INFORMATION

A. 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. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2007

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 19,000	\$ 19,000	\$ 22,727
State Grants	60,000	60,000	67,068
Charges for Services	0	0	3,970
Interest and Rents	5,500	5,500	5,054
Other Revenues	0	0	1,299
 Total Revenues	 84,500	 84,500	 100,118
<u>EXPENDITURES</u>			
Legislative			
Township Board	7,150	7,150	5,246
General Government			
Supervisor	4,130	4,130	3,768
Clerk	15,650	15,650	9,956
Board of Review	4,500	4,500	3,087
Treasurer	15,500	15,500	13,924
Assessor	11,150	11,150	9,579
Elections	6,650	6,650	11,042
Building and Grounds	163,150	168,534	159,626
Cemetery	11,320	11,320	5,563
Public Safety			
Fire Department	12,000	12,000	10,411
Public Works			
Highways, Streets, Bridges	18,000	18,000	9,686
Recreation and Culture			
Library	1,000	1,000	858
Other Functions	3,500	4,650	3,473
 Total Expenditures	 273,700	 280,234	 246,219
 Excess (Deficiency) of Revenues Over Expenditures	 (189,200)	 (195,734)	 (146,101)
 <u>FUND BALANCE</u> - Beginning of Year	 226,566	 226,566	 233,403
 <u>FUND BALANCE</u> - End of Year	 \$ 37,366	 \$ 30,832	 \$ 87,302

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
MARCH 31, 2007

		Balance 4/1/2006	Additions	Deductions	Balance 3/31/2007
	<u>ASSETS</u>				
Cash		\$ 369	\$ 571,852	\$ 546,256	\$ 25,965
		<hr/>			
	<u>LIABILITIES</u>				
Due to Other Funds		\$ 369	\$ 21,664	\$ 16,900	\$ 5,133
Refunds Payable to Taxpayers		0	2,468	1,437	1,031
Due to Other Governments		0	547,720	527,919	19,801
		<hr/>			
TOTAL LIABILITIES		\$ 369	\$ 571,852	\$ 546,256	\$ 25,965
		<hr/>			

MIDDLE BRANCH TOWNSHIP, OSCEOLA COUNTY
MARION, MICHIGAN

STATEMENT OF 2006 TAX ROLL
MARCH 31, 2007

TAXES ASSESSED

County			
State Education Tax	\$	124,950	
Operating		191,262	
Township			
Operating		18,151	
Schools			
Evert Public Schools		32,617	
Marion Public Schools		179,667	
Intermediate School			
Wexford-Missaukee Area		100,853	
Mecosta-Osceola Area		<u>15,740</u>	\$ 663,240

TAXES COLLECTED

County			
State Education Tax		109,118	
Operating		162,599	
Township			
Operating		15,066	
Schools			
Evert Public Schools		27,892	
Marion Public Schools		152,007	
Intermediate School			
Wexford-Missaukee Area		85,968	
Mecosta-Osceola Area		<u>11,512</u>	<u>564,162</u>

TAXES RETURNED DELINQUENT

County			
State Education Tax		15,832	
Operating		28,663	
Township			
Operating		3,085	
Schools			
Evert Public Schools		4,725	
Marion Public Schools		27,660	
Intermediate School			
Wexford-Missaukee Area		14,885	
Mecosta-Osceola Area		<u>4,228</u>	<u>\$ 99,078</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

June 26, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Middle Branch Township
Osceola County
Marion, Michigan

During the course of our audit of the basic financial statements of Middle Branch Township for the year ended March 31, 2007, we noted the following items:

Budgeting

The budget was exceeded for election activities in the General Fund. It resulted from not amending the budget to include revenue and expenditure for a state grant that the Township received to purchase an election machine. Act 621 of the Public Acts of 1978 requires amending the budget prior to authorizing expenditures that would cause such overages.

Tax Collection Fund Balance

A balance remained in the Tax Collection Fund at March 31, 2007. We recommend that the Township disburse each year all remaining funds in the Tax Collection Fund by March 31, except a small residual amount to maintain a minimum balance in order to keep the bank accounts open.

Tax Collection Fund Recordkeeping

During our audit we encountered difficulty in balancing the Tax Collection Fund transactions. The checking account was not timely reconciled to the bank and books throughout the year. With the dollar amounts involved, the bank account must be reconciled timely each month. The Michigan Department of Treasury Accounting Procedures Manual requires that this be done on a monthly basis.

We would like to thank the board for awarding our firm the audit assignment of the Township and to thank the Township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
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June 26, 2007

To the Township Board
Middle Branch Township
Osceola County
Marion, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Middle Branch 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 Middle Branch Township's internal control over financial reporting (internal control) 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 a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or 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. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

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

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

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

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

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. We believe the deficiency described in number 1 above (Lack of Segregation of Duties) is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.