Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☒Twp ☐Village ☐Other	Covert Township	Van Buren

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
June 30, 2006	December 4, 2006	December 20, 2006

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	☒	
The letter of Comments and Recommendations	☐	Nothing to report
Other (Describe)	☐	No other documents required

Certified Public Accountant (Firm Name)	Telephone Number		
Siegfried Crandall, PC	(269) 381-4970		
Street Address	**City**	**State**	**Zip**
246 East Kilgore Road	Kalamazoo	MI	49002
Authorizing CPA Signature	**Printed Name**	**License Number**	
	Joseph M. Walls	1101013696	

Township of Covert
Van Buren County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Year ended June 30, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Township of Covert's (the Township) operations over the fiscal year and its financial condition on June 30, 2006.

Financial highlights

- The Township's total net assets increased $727 thousand (8 percent) as a result of this year's operations. Net assets of the governmental activities increased $321 thousand, (13 percent), and net assets of the business-type activities increased $405 thousand (7 percent).
- Of the $10.2 million total net assets reported, $4.2 million is available to be used to meet future operating and capital improvement needs.
- The General Fund unreserved undesignated fund balance at the end of the fiscal year was $495 thousand, which represents 65 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
    - The governmental funds statements tell how general government services like public works and public safety were financed in the short term, as well as what remains for future spending.
    - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business. The Township has two proprietary funds to account for its water and sewer operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

This is the second year using the Governmental Accounting Standards Board Statement 34 (GASB 34) reporting format. A comparative analysis of the basic financial statements will be made using the current and last year's basic financial statements.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets and the statement of activities include all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - These activities include functions most commonly associated with government (e.g., general government, public works, public safety, etc.). Property taxes and intergovernmental revenues generally fund these services.
- *Business-type activities* - These activities provide services that are funded by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

1. *Government funds.* Most of the Township's basic services are included in governmental funds, which focus on 1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, 2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.

Fund financial statements (Continued)

2. *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds (a type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows.

3. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Township's fiduciary activities are reported in separate statements of net assets - fiduciary fund. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets. Total net assets at the end of the fiscal year were $10.2 million, an increase of 8 percent over the prior year. However, $6.0 million of this total is invested in capital assets, and $1.4 million is restricted for debt service, public safety, and public works. Consequently, unrestricted net assets were $2.8 million, 27 percent of the total.

Condensed financial information
net assets (in thousands)

	Governmental activities		*Business-type activities*		*Totals*	
	2004-05	*2005-06*	*2004-05*	*2005-06*	*2004-05*	*2005-06*
Assets						
Current and other assets	$ 1,448.4	$ 1,700.0	$ 3,211.4	$ 2,907.8	$ 4,659.8	$ 4,607.8
Capital assets	1,122.7	1,326.4	17,370.0	17,649.2	18,492.7	18,975.6
Total assets	2,571.1	3,026.4	20,581.4	20,557.0	23,152.5	23,583.4
Liabilities						
Long-term debt outstanding	75.0	220.7	13,254.4	12,828.8	13,329.4	13,049.5
Other liabilities	105.5	93.9	203.5	199.2	309.0	293.1
Total liabilities	180.5	314.6	13,457.9	13,028.0	13,638.4	13,342.6
Net assets						
Invested in capital assets	1,122.7	1,183.5	4,066.9	4,820.3	5,189.6	6,003.8
Restricted	773.6	973.3	907.1	403.6	1,680.7	1,376.9
Unrestricted	494.3	555.0	2,149.5	2,305.1	2,643.8	2,860.1
Total net assets	$ 2,390.6	$ 2,711.8	$ 7,123.5	$ 7,529.0	$ 9,514.1	$ 10,240.8

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (Continued)

Changes in net assets. The Township's total revenues are $3.6 million. Approximately 65 percent of the Township's revenues come from property taxes, and 6 percent is received as state revenue sharing. About 17 percent of total revenues come from charges for services.

Condensed financial information
Changes in net assets (in thousands)

	Governmental activities		*Business-type activities*		*Totals*	
	2004-05	*2005-06*	*2004-05*	*2005-06*	*2004-05*	*2005-06*
Program revenues:						
Charges for services	$ 268.1	$ 351.7	$ 250.8	$ 261.9	$ 518.9	$ 613.6
Operating grants	5.0	180.9	-	-	5.0	180.9
Capital grants	122.6	119.3	50.0	50.0	172.6	169.3
General revenues:					-	-
Taxes	1,207.2	1,272.3	1,889.0	887.5	3,096.2	2,159.8
State grants	219.0	215.7	-	-	219.0	215.7
Investment income	19.4	28.5	25.8	90.0	45.2	118.5
Other	37.1	136.6	-	-	37.1	136.6
Total revenues	1,878.4	2,305.0	2,215.6	1,289.4	4,094.0	3,594.4
Expenses:						
Legislative	4.1	2.8	-	-	4.1	2.8
General government	353.2	352.9	-	-	353.2	352.9
Public safety	1,134.2	1,144.6	-	-	1,134.2	1,144.6
Public works	283.3	219.4	855.6	893.9	1,138.9	1,113.3
Community and economic					-	-
development	33.8	37.5	-	-	33.8	37.5
Recreation and culture	90.2	112.9	-	-	90.2	112.9
Health and welfare	-	99.7				
Interest on long-term debt	-	4.0	-	-	-	4.0
Total expenses	1,898.8	1,973.8	855.6	893.9	2,754.4	2,768.0
Excess (deficiency) before transfers	(20.4)	331.2	1,360.0	395.5	1,339.6	826.4
Transfers	-	(10.0)	-	10.0	-	-
Increase (decrease) in net assets	$ (20.4)	$ 321.2	$ 1,360.0	$ 405.5	$ 1,339.6	$ 826.4

Governmental activities. Governmental activities increased the Township's net assets by $331 thousand. Key factors for this increase include the increase in taxes levied by both the Township's and the County tax for ambulance services. The Township also received $119 thousand in capital grants for public safety vehicles and equipment. Net realized gains on the sale of capital assets were $137 thousand. The cost of all governmental activities this year was $2 million. After subtracting the direct charges to those who directly benefited from the programs ($352 thousand), operating grants ($181 thousand), and capital grants ($119 thousand), the "public benefit" portion covered by taxes, state revenue sharing, other general revenues, and available surplus was $1.3 million.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE (Continued)

Business-type activities. Business-type activities increased the Township's net assets by $396 thousand.

The cost of water and sewer services for 2006 totaled $894 thousand, including interest expense of $264 thousand. Fees for these services totaled $262 thousand. The Township levies an annual tax for the purposes of paying principal and interest for outstanding water bonds payable. The tax totaled $888 thousand in 2006.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At June 30, 2006, the Township's governmental funds reported a combined fund balance of $1.6 million, approximately $225 thousand more than last year.

Expenditures in the General Fund exceeded revenues by $49 thousand. However, the fund balance of the General Fund increased by $16 thousand because a transfer from the Fire and Ambulance Fund in the amount of $150,000 exceeded General Fund transfers of $85 thousand to the Police Fund and Sewer Fund. The use of available surplus was less than the anticipated amount in the General Fund budget for 2006, and a $503 thousand fund balance remains in the fund.

The Police Fund had a $24 thousand decrease in its fund balances this year. The Fire and Ambulance Fund balance increased by $173 thousand. Both the Police and Fire and Ambulance funds benefited from increased Township taxes of $24 thousand and $28 thousand, respectively. Additionally, a county-wide tax also increased by $66 thousand in the Fire and Ambulance Fund as a result of a millage increase and a new county-wide allocation formula. These increased revenue sources were discussed in last year's Management's Discussion and Analysis. The Fire and Ambulance Fund was able to transfer $150,000 back to the General Fund this year, as a repayment of prior General Fund subsidies.

General fund budgetary highlights

The Township amended the General Fund budget, primarily to prevent budget overruns. No amendments were significant, individually or in total.

Positive variances in several expenditure categories resulted in a net positive expenditure budget variance of $289 thousand. Actual revenues for the year were approximately $31 thousand less than projected, resulting in a net positive variance of revenues less expenditures of $257 thousand. The additional $175 thousand positive variance of net operating transfers resulted in a total positive variance of $432 thousand for the year, compared to budget.

Capital assets and debt administration

Capital assets.
At June 30, 2006, the Township had invested $19.0 million in various capital assets, net of depreciation, including its land, buildings, equipment, and water and wastewater systems. This amount represents an increase of $480 thousand, 2.6 percent over the prior year.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (Continued)

Capital assets and debt administration (Continued)

This year's major capital asset additions included $659 thousand in additions to the Township's water supply system, financed with proceeds available from the 2003 water bond issue. The Township also acquired $334 thousand in governmental capital assets, including $293 thousand in fire and ambulance vehicles and equipment, using two federal grants totaling $119 thousand, a $150 thousand federal loan, and other contributions.

Detailed information about the Township's capital assets is presented in Note 6 to the financial statements.

Long-term debt.
This year, the Township issued a $150 thousand installment note payable for the acquisition of fire and police capital assets. The outstanding balance of this loan at June 30, 2006 was $143,000, and is included in the governmental activities on the statement of net assets.

At year end, the Township had $12.8 million in outstanding bonds payable included in its business-type activities and comprised of five general obligation and revenue bond issues. Detailed information about the Township's long-term liabilities is presented in Note 7 to the financial statements.

Economic condition and outlook

Approximately $503 thousand is available for appropriation in the General Fund budget. Modest increases in property taxes from increased assessed values are expected next year. Overall, revenues are expected to increase slightly for 2006.

The Township has not added other major new programs or initiatives to the 2007 budget. Various cost increases in payroll and fringe benefits are anticipated. Overall, the General Fund balance is expected to decrease slightly during fiscal year 2007.

Revenues in the other governmental funds are also expected to remain stable or increase slightly from increased assessed values. The Township's General Fund to will most likely need to again subsidize police services in 2007.

The Township's Water Fund is expected to operate so that revenues, including property taxes for debt service, will continue to exceed expenses for water services. However, the Wastewater Fund is expected to again generate limited cash flows, which may again require a subsidy from the General Fund to cover operating costs.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors, and to demonstrate the Township's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Township of Covert, Supervisor's Office, P.O. Box 35, Covert, Michigan 49043 (Phone: (269) 764-8986.)

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Township of Covert, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Covert, Michigan, as of June 30, 2006, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Covert, Michigan'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison schedules, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Covert, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Township of Covert, Michigan. 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.

In accordance with *Government Auditing Standards* we have also issued our report dated November 10, 2006, on our consideration of the Township of Covert's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.

Siegfried Crandell P.C.

December 4, 2006

BASIC FINANCIAL STATEMENTS

Township of Covert
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental activities	*Business-type activities*
ASSETS		
Current assets:		
Cash	$ 1,479,316	$ 1,600,394
Receivables	116,897	228,987
Prepaid expenses	46,208	-
Total current assets	1,642,421	1,829,381
Noncurrent assets:		
Restricted cash	44,272	44,662
Receivables	13,299	958,296
Deferred charges	-	75,441
Capital assets not being depreciated - land	48,710	98,583
Capital assets, net of accumulated depreciation	1,277,747	17,550,600
Total noncurrent assets	1,384,028	18,727,582
Total assets	3,026,449	20,556,963
LIABILITIES		
Current liabilities:		
Payables	85,925	199,146
Current maturities of long-term debt	8,000	483,000
Total current liabilities	93,925	682,146
Noncurrent liabilities:		
Compensated absences	85,700	-
Long-term debt	135,000	12,345,841
Total noncurrent liabilities	220,700	12,345,841
Total liabilities	314,625	13,027,987
NET ASSETS		
Invested in capital assets, net of related debt	1,183,457	4,820,342
Restricted for:		
Debt service	44,272	403,616
Public safety	529,238	-
Public works	399,824	-
Unrestricted	555,033	2,305,018
Total net assets	$ 2,711,824	$ 7,528,976

See notes to financial statements

Township of Covert
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

		Program revenues		
	Expenses	*Charges for services*	*Operating grants and contributions*	*Capital grants and contributions*
Functions/Programs				
Governmental activities:				
Legislative	$ 2,759	$ -	$ -	$ -
General government	352,898	149,328	3,305	-
Public safety	1,144,632	156,449	168,077	119,282
Public works	219,401	4,233	9,578	-
Health and welfare	99,698	-		-
Community and economic development	37,458	1,300	-	-
Recreation and culture	112,900	40,372	-	-
Interest on long-term debt	4,028	-	-	-
Total governmental activities	1,973,774	351,682	180,960	119,282
Business-type activities:				
Water	768,755	196,448	-	50,000
Sewer	125,135	65,441	-	-
Total business-type activities	893,890	261,889	-	50,000
Total primary government	$2,867,664	$ 613,571	$ 180,960	$ 169,282

General revenues:
Property taxes
State shared revenues
Unrestricted investment income
Gain on sale of capital assets
Transfers

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets		
Governmental activities	***Business-type activities***	***Totals***
$ (2,759)		$ (2,759)
(200,265)		(200,265)
(700,824)		(700,824)
(205,590)		(205,590)
(99,698)		(99,698)
(36,158)		(36,158)
(72,528)		(72,528)
(4,028)		(4,028)
(1,321,850)		(1,321,850)
-	$ (522,307)	(522,307)
-	(59,694)	(59,694)
-	(582,001)	(582,001)
(1,321,850)	(582,001)	(1,903,851)
1,272,337	887,528	2,159,865
215,667	-	215,667
28,533	89,966	118,499
136,517	-	136,517
(10,000)	10,000	-
1,643,054	987,494	2,630,548
321,204	405,493	726,697
2,390,620	7,123,483	9,514,103
$ 2,711,824	$ 7,528,976	$ 10,240,800

See notes to financial statements

Township of Covert
BALANCE SHEET - *governmental funds*
June 30, 2006

	General	Police	Fire and Ambulance
ASSETS			
Cash	$ 497,066	$ 158,299	$ 381,835
Receivables	70,413	-	46,484
Total assets	$ 567,479	$ 158,299	$ 428,319
LIABILITIES AND FUND BALANCES			
Liabilities - accounts payable	$ 64,785	$ 7,657	$ 13,483
Fund balances:			
Reserved for building inspections	8,032	-	-
Reserved for debt service	-	-	44,272
Unreserved, undesignated	494,662	150,642	370,564
Unreserved, reported in other governmental funds - special revenue	-	-	-
Total fund balance	502,694	150,642	414,836
Total liabilities and fund balances	$ 567,479	$ 158,299	$ 428,319

Total fund balances - governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

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

Prepaid expenses used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of governmental funds

Other governmental funds	Totals
$ 486,388	$ 1,523,588
13,299	130,196
$ 499,687	$ 1,653,784
$ -	$ 85,925
-	8,032
-	44,272
-	1,015,868
499,687	499,687
499,687	1,567,859
$ 499,687	$ 1,653,784
	$ 1,567,859
	1,326,457
	46,208
	(228,700)
	$ 2,711,824

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *governmental funds*

Year ended June 30, 2006

	General	Police	Fire and Ambulance
REVENUES			
Taxes	$ 368,643	$ 376,362	$ 592,372
Licenses and permits	29,437	-	-
State grants	224,087	2,250	-
Federal grants	1,405	-	112,102
Charges for services	54,807	-	120,670
Fines and forfeitures	-	6,592	-
Interest and rentals	30,824	1,035	3,038
Other	8,402	14,127	164,383
Total revenues	717,605	400,366	992,565
EXPENDITURES			
Legislative	2,759	-	-
General government	340,601	-	-
Public safety	44,549	441,248	524,758
Public works	189,826	-	-
Health and welfare	-	-	-
Community and economic development	37,458	-	-
Recreation and culture	101,685	-	-
Debt service:			
Principal	-	-	7,000
Interest	-	-	4,028
Capital outlay	49,502	57,985	283,335
Total expenditures	766,380	499,233	819,121
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(48,775)	(98,867)	173,444
OTHER FINANCING SOURCES (USES)			
Bonds issued	-	-	150,000
Transfers in from other funds	150,000	75,000	-
Transfers out to other funds	(85,000)	-	(150,000)
Total other financing sources (uses)	65,000	75,000	-
NET CHANGES IN FUND BALANCES	16,225	(23,867)	173,444
FUND BALANCES - BEGINNING	486,469	174,509	241,392
FUND BALANCES - ENDING	$ 502,694	$ 150,642	$ 414,836

Other governmental funds	Totals
$ 225,145	$ 1,562,522
-	29,437
-	226,337
-	113,507
-	175,477
-	6,592
9,454	44,351
-	186,912
234,599	2,345,135
-	2,759
-	340,601
-	1,010,555
75,783	265,609
99,698	99,698
-	37,458
-	101,685
-	7,000
-	4,028
-	390,822
175,481	2,260,215
59,118	84,920
-	150,000
-	225,000
-	(235,000)
-	140,000
59,118	224,920
440,569	1,342,939
$ 499,687	$ 1,567,859

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *governmental funds* (Continued)

Year ended June 30, 2006

	Total governmental funds
Net change in fund balances - total governmental funds	$ 224,920
Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:	
Prepaid expenses used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.	46,208
Governmental funds report capital outlays as expenditures. The cost of these assets are allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the amount by which depreciation exceeded capital outlays in the current period.	228,365
The remaining values of capital assets reduce the gain from asset sales on the statement of activities.	(24,589)
The issuance of long-term debt provides current financial resources in the funds, but does not have an effect on net assets.	(150,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but does not affect net assets.	7,000
Compensated absences are recorded when incurred in the statement of activities.	(10,700)
Change in net assets of *governmental activities*	$ 321,204

See notes to financial statements

Township of Covert

STATEMENT OF NET ASSETS - *proprietary funds*

June 30, 2006

	Business-type activities - enterprise funds		
	Major	Nonmajor	
	Water	Sewer	Totals
ASSETS			
Current assets:			
Cash and investments	$ 1,574,559	$ 25,835	$ 1,600,394
Receivables, net	113,491	19,459	132,950
Due from other governmental units	96,037	-	96,037
Bond debt reserves - USDA loan	-	44,662	44,662
Total current assets	1,784,087	89,956	1,874,043
Noncurrent assets:			
Receivables, net	704,297	1,581	705,878
Due from other governmental units	252,418	-	252,418
Deferred charges	75,441	-	75,441
Capital assets, not being depreciated - land	98,586		98,586
Capital assets, net of accumulated depreciation	16,282,825	1,267,772	17,550,597
Total noncurrent assets	17,413,567	1,269,353	18,682,920
Total assets	19,197,654	1,359,309	20,556,963
LIABILITIES			
Current liabilities:			
Accounts payable	123,166	19,227	142,393
Accrued interest	46,865	9,888	56,753
Current maturities of long-term debt	475,000	8,000	483,000
Total current liabilities	645,031	37,115	682,146
Noncurrent liabilities - long-term debt	11,965,323	387,500	12,352,823
Total liabilities	12,610,354	424,615	13,034,969
NET ASSETS			
Invested in capital assets, net of related debt	3,842,502	872,272	4,714,774
Restricted for debt service	415,707	44,662	460,369
Unrestricted, unallocated	2,336,073	17,760	2,353,833
Total net assets	$ 6,594,282	$ 934,694	$ 7,528,976

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - *proprietary funds*

Year ended June 30, 2006

	Business-type activities - enterprise funds		
	Major	*Non-major*	
	Water	*Sewer*	*Totals*
OPERATING REVENUES			
Charges for services	$ 135,298	$ 65,441	$ 200,739
Hook up fees	61,150	-	61,150
Total operating revenues	196,448	65,441	261,889
OPERATING EXPENSES			
Contractual services	190,682	41,301	231,983
Utilities	514	2,785	3,299
Depreciation	331,487	48,189	379,676
Repairs and maintenance	6,297	9,092	15,389
Total operating expenses	528,980	101,367	630,347
OPERATING LOSS	(332,532)	(35,926)	(368,458)
NONOPERATING REVENUES (EXPENSES)			
Interest	89,843	123	89,966
Interest expense	(239,775)	(23,768)	(263,543)
Capital contributions	50,000	-	50,000
Property taxes	887,528	-	887,528
Total nonoperating revenues (expenses)	787,596	(23,645)	763,951
INCOME (LOSS) BEFORE TRANSFERS	455,064	(59,571)	395,493
TRANSFERS IN - General Fund	-	10,000	10,000
CHANGE IN NET ASSETS	455,064	(49,571)	405,493
NET ASSETS - BEGINNING	6,139,218	984,265	7,123,483
NET ASSETS - ENDING	$ 6,594,282	$ 934,694	$ 7,528,976

See notes to financial statements

Township of Covert
STATEMENT OF CASH FLOWS - *proprietary funds*
Year ended June 30, 2006

	Business-type activities - enterprise funds		
	Major	*Non-major*	
	Water	*Sewer*	*Totals*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	$ 182,501	$ 71,289	$ 253,790
Payments to suppliers	(213,105)	(33,950)	(247,055)
Net cash provided by (used in) operating activities	(30,604)	37,339	6,735
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Property taxes collected	887,528	-	887,528
Assessments collected	46,953	-	46,953
Capital grants received	50,000	-	50,000
Principal paid on long-term debt	(425,000)	(7,500)	(432,500)
Interest paid on long-term debt (including $307,736 of capitalized interest)	(540,848)	(13,955)	(554,803)
Net cash provided by (used in) capital and related financing activities	18,633	(21,455)	(2,822)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	67,581	123	67,704
NET INCREASE IN CASH	55,610	16,007	71,617
CASH - BEGINNING	1,518,949	54,490	1,573,439
CASH - ENDING	$ 1,574,559	$ 70,497	$ 1,645,056

See notes to financial statements

Township of Covert
STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)
Year ended June 30, 2006

	Business-type activities - enterprise funds		
	Major	*Non-major*	
	Water	*Sewer*	*Totals*
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$ (332,532)	$ (35,926)	$ (368,458)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	335,925	48,190	384,115
(Increase) decrease in accounts receivable	(13,947)	5,848	(8,099)
Increase (decrease) in accounts payable	(20,050)	19,227	(823)
Net cash provided by (used in) operating activities	$ (30,604)	$ 37,339	$ 6,735
SUPPLEMENTARY CASH FLOW INFORMATION:			
Acquisition of capital assets	$ (658,938)	$ -	$ (658,938)
Capitalized interest	307,736	-	307,736
Decrease in accounts payable	(3,065)	-	(3,065)
Decrease in due from other governmental units	354,267	-	354,267
Cash provided	$ -	$ -	$ -

See notes to financial statements

Township of Covert

STATEMENT OF FIDUCIARY NET ASSETS - *fiduciary funds*

June 30, 2006

ASSETS	
Cash	$ 9,657
LIABILITIES	
Due to other governmental units	$ 9,657

See notes to the financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Covert, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:
In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

b) Government-wide and fund financial statements:
The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, 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 support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

c) Measurement focus, basis of accounting, and financial statement presentation:
The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):
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 if they are expected to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, 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. All other revenue items are considered to be measurable only when cash is received by the Township.

The Township reports the following major governmental funds:

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

The Police Fund, and Fire and Ambulance Fund account for public safety activities.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the GASB. The Township also has the option of following subsequent private sector guidance for its business-type activities and enterprise funds, subject to the same limitations. The Township has elected not to follow subsequent private-sector standards.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) 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 or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and water systems	50 years

v) Compensated absences (vacation and sick leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

viii) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

Fund	*Function*	*Activity*	*Budget*	*Actual*	*Variance*
General	General government	Buildings and grounds	$ 22,300	$ 30,334	$ 8,034
	Public works	Airport Authority	63,448	91,557	28,109
Fire and Ambulance	Capital outlay	Capital outlay	171,370	283,335	111,965
	Transfer out	Transfer to Geneal Fund	20,000	150,000	130,000

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits, as presented in the government-wide statement of net assets, are as follows:

	Governmental activities	*Business-type activities*	*Fiduciary*	*Totals*
Cash	$ 1,479,316	$ 1,600,394	$ 9,657	$ 3,089,367
Restricted assets	44,272	44,662	-	88,934
Total cash	$ 1,523,588	$ 1,645,056	$ 9,657	$ 3,178,301

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At June 30, 2006, the Township has deposits with a carrying amount of $3,178,301 and a bank balance of $3,257,689. Of the bank balance, $200,000 is covered by federal depository insurance and $3,057,689 is uninsured. Bond debt reserves in the amount of $88,934 are held in separate accounts, as required by the U.S. Department of Agriculture.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, and business-type funds are as follows:

	General	*Fire and Ambulance*	*Non-major*	*Total govern-mental*	*Sewer*	*Water*	*Total business-type*
Accounts	$ -	$ 46,484	$13,299	$ 59,783	$21,040	$ 44,276	$ 65,316
Intergovernmental	70,413	-	-	70,413	-	348,455	348,455
Assessments	-	-	-	-	-	751,250	751,250
Interest	-	-	-	-	-	22,262	22,262
Receivables, net	$ 70,413	$ 46,484	$13,299	$130,196	$21,040	$1,166,243	$1,187,283
Non-current portion	$ -	$ -	$13,299	$ 13,299	$ -	$ 958,296	$ 958,296

NOTE 5 - ECONOMIC DEPENDENCY:

The Township received approximately 50 percent of its property tax revenues from one major taxpayer.

NOTE 6 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2006, was as follows:

	Beginning balance	*Increases*	*Decreases*	*Ending balance*
Governmental activities:				
Capital assets not being depreciated - land	$ 22,214	$ 26,496	$ -	$ 48,710
Capital assets being depreciated				
Buildings and improvements	$1,399,430	$ 18,026	$ -	$1,417,456
Furniture, fixtures, and equipment	390,157	125,091	(44,087)	471,161
Vehicles	860,315	164,884	(340,871)	684,328
Subtotal	2,649,902	308,001	(384,958)	2,572,945
Less accumulated depreciation for:				
Buildings and improvements	(613,743)	(35,655)	-	(649,398)
Furniture, fixtures, and equipment	(261,782)	(31,350)	44,087	(249,045)
Vehicles	(673,910)	(42,126)	316,281	(399,755)
Subtotal	(1,549,435)	(109,131)	360,368	(1,298,198)
Total capital assets being depreciated, net	1,100,467	198,870	(24,590)	1,274,747
Governmental activities capital assets, net	$1,122,681	$ 225,366	$ (24,590)	$1,323,457

NOTE 6 - CAPITAL ASSETS (Continued):

	Beginning balance	*Increases*	*Decreases*	*Ending balance*
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 94,583	$ -	$ -	$ 94,583
Construction in progress	780,294	365,828	(269,396)	876,726
Subtotal	874,877	365,828	(269,396)	971,309
Capital assets being depreciated:				
Sewer system	1,906,269	-	-	1,906,269
Water system	16,293,014	562,504	-	16,855,518
Subtotal	18,199,283	562,504	-	18,761,787
Less accumulated depreciation for:				
Sewer system	(684,890)	(48,189)	-	(733,079)
Water system	(1,019,348)	(331,486)	-	(1,350,834)
Subtotal	(1,704,238)	(379,675)	-	(2,083,913)
Total capital assets being depreciated, net	16,495,045	182,829	-	16,677,874
Business-type activities capital assets, net	$ 17,369,922	$ 548,657	$ (269,396)	$ 17,649,183

Depreciation expense was charged to the governmental activities of the Township as follows:

General government	$ 12,661
Public safety	85,255
Recreation and culture	11,215
Total governmental activities	$ 109,131

NOTE 7 - LONG-TERM DEBT:

At June 30, 2006, long-term liabilities are comprised of the following individual issues:

Governmental activities:	
$150,000 4.125% USDA installment loan; due in annual installments of $7,000 to $13,000 through	$ 143,000
Accrued compensated absences	85,700
Total long-term obligations	$ 228,700

NOTE 7 - LONG-TERM DEBT (Continued):

Business type activities:

Sanitary sewer revenue bonds, series 1989A, bearing interest at 6%, maturing each year 1991 through 2029	$ 269,000
Sanitary sewer revenue bonds, series 1989B, bearing interest at 6%, maturing each year 1991 through 2029	126,500
$2,500,000 County of Van Buren Water Supply System limited tax general obligation bonds series 1997, bearing interest at 4.0% to 4.4%, maturing each year through 2007, net of unamortized discount of $4,505	295,495
$5,000,000 County of Van Buren Water Supply System limited tax general obligation bond series 2002, bearing interest at 3.50 to 4.75%, maturing each year through 2021, net of unamortized discount of $37,154	4,737,846
$7,500,000 County of Van Buren Water Supply System limited tax general obligation bond series 2003, bearing interest at 3.000 to 4.375%, maturing each year through 2024	7,400,000
Total bonds	$ 12,828,841

NOTE 7 - LONG-TERM DEBT (Continued):

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning balance	*Additions*	*Reductions*	*Ending balance*	*Amounts due within one year*
Governmental activities:					
Note payable	$ -	$ 150,000	$ (7,000)	$ 143,000	$ 8,000
Compensated absences	75,000	33,470	(22,770)	85,700	-
Total	$ 75,000	$ 183,470	$ (29,770)	$ 228,700	$ 8,000
Business-type activities:					
1989A revenue bonds	$ 274,000	$ -	$ (5,000)	$ 269,000	$ 5,500
1989B revenue bonds	129,000	-	(2,500)	126,500	2,500
1997 general obligation	600,000	-	(300,000)	300,000	300,000
2002 general obligation	4,850,000	-	(75,000)	4,775,000	100,000
2003 general obligation	7,450,000	-	(50,000)	7,400,000	75,000
	13,303,000	-	(432,500)	12,870,500	$ 483,000
Less bond discounts	(48,642)	-	6,983	(41,659)	
Total	$ 13,254,358	$ -	$ (425,517)	$ 12,828,841	

Debt service requirements at June 30, 2006, were as follows:

	Governmental activities		*Business-type activities*	
Years ended June 30:	*Principal*	*Interest*	*Principal*	*Interest*
2007	8,000	5,899	483,000	546,049
2008	8,000	5,569	659,000	526,559
2009	8,000	5,239	659,500	500,801
2010	9,000	4,909	660,500	474,983
2011	9,000	4,537	661,000	448,323
2012 - 2016	51,000	16,829	3,417,000	1,830,757
2017 - 2021	50,000	5,239	3,885,500	1,072,455
2022 - 2026	-	-	2,353,000	236,253
2027 - 2030	-	-	92,000	8,460
Totals	$ 143,000	$ 48,221	$ 12,870,500	$ 5,644,640

NOTE 8 - INTERFUND TRANSFERS:

The $150,000 transfer from the Fire and Ambulance Fund to the General Fund repaid portions of the cumulative subsidies from the General Fund to the Fire and Ambulance Fund in prior years.

Transfers from the General Fund to the Police Fund and the Sewer Fund in the amounts of $75,000 and $10,000, respectively, represented current operating subsidies to these funds.

NOTE 9 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Township maintains a defined contribution plan. The plan is a non-trustee plan and the Township does not administer the plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. All members of the Township Board and all Township employees employed full-time on a regular basis are eligible to participate. Eligible employees may begin participating after six months of employment. The Township contributes 6 percent of participating employees' annual compensation.

All of the Township's contributions for each participating employee (and interest allocated to the employee's account) are fully vested when the employee participates in the plan.

The Township made required contributions of $48,947 for the year ended June 30, 2006.

NOTE 10 - CLAIMS ARISING FROM RISK OF LOSS:

The Township is exposed to various risks of losses for claims arising from general liability, wrongful acts, professional liability, property damage and destruction, crime, accidents, and injuries. Risks of losses arising from possible claims are managed through the purchase of commercial insurance.

For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2006, is as follows:

Revenues	$ 28,887
Expenses	27,898
Excess of revenues over expenses	$ 989

NOTE 12 - COMMITMENTS:

The Township has entered construction contracts for the purpose of constructing water distribution systems. Outstanding contractual and other commitments related to the construction total approximately $125,000 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Covert
BUDGETARY COMPARISON SCHEDULE - *General Fund*
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
REVENUES				
Taxes:				
Current property taxes	$ 234,084	$ 234,084	$ 244,285	$ 10,201
Collection fees	123,000	123,000	124,358	1,358
Total taxes	357,084	357,084	368,643	11,559
Federal grants	-	-	1,405	1,405
State grants	216,000	216,000	224,087	8,087
Licenses and permits:				
Building and zoning permits	20,000	20,000	28,887	8,887
Business licenses	-	-	400	400
Other	-	-	150	150
Total licenses and permits	20,000	20,000	29,437	9,437
Charges for services:				
Park fees	55,000	55,000	40,372	(14,628)
Cemetery charges	5,000	5,000	4,350	(650)
Transfer station fees	6,000	6,000	4,233	(1,767)
Planning and land division fees	3,000	3,000	2,450	(550)
Other	-	-	3,402	3,402
Total charges for services	69,000	69,000	54,807	(14,193)
Interest and rentals	26,000	26,000	30,824	4,824
Other:				
Contributions	4,000	4,000	3,058	(942)
Miscellaneous	57,000	57,000	5,344	(51,656)
Total other	61,000	61,000	8,402	(52,598)
Total revenues	749,084	749,084	717,605	(31,479)

Township of Covert
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES				
Legislative - Township Board	$ 3,450	$ 3,450	$ 2,759	$ 691
General government:				
Supervisor	30,000	30,000	25,343	4,657
Assessing	65,000	70,000	69,926	74
Elections	11,500	11,500	(1,132)	12,632
Clerk	40,000	40,000	32,568	7,432
Board of review	5,000	5,000	2,198	2,802
Treasurer	50,000	50,000	41,355	8,645
Buildings and grounds	22,300	22,300	30,334	(8,034)
Insurance and bonds	138,500	138,500	88,312	50,188
Pension	6,500	6,500	9,259	(2,759)
Cemetery	20,000	20,000	8,636	11,364
Other	229,010	194,956	33,802	161,154
Total general government	617,810	588,756	340,601	248,155
Public safety:				
Building inspection	25,000	25,000	16,981	8,019
Ordinance enforcement	30,000	30,000	16,651	13,349
Electrical inspector	15,000	15,000	5,207	9,793
Mechanical inspection	10,000	10,000	5,710	4,290
Total public safety	80,000	80,000	44,549	35,451
Public works:				
Streets and sidewalks	54,000	54,000	53,925	75
Transfer station	36,000	36,000	35,160	840
Housing Commission	2,500	2,500	1,289	1,211
Drains	10,000	10,000	7,895	2,105
Airport Authority	63,448	63,448	91,557	(28,109)
Total public works	165,948	165,948	189,826	(23,878)
Community and economic development - planning and zoning	50,000	50,000	37,458	12,542

Township of Covert
BUDGETARY COMPARISON SCHEDULE - *General Fund* (Continued)
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
EXPENDITURES (Continued)				
Recreation and culture:				
Parks	$ 80,000	$ 79,060	$ 81,420	$ (2,360)
Library	3,610	3,610	2,085	1,525
Other	18,180	18,180	18,180	-
Total recreation and culture	101,790	100,850	101,685	(835)
Capital outlay	50,086	66,026	49,502	16,524
Total expenditures	1,069,084	1,055,030	766,380	288,650
DEFICIENCY OF REVENUES OVER EXPENDITURES	(320,000)	(305,946)	(48,775)	257,171
OTHER FINANCING SOURCES (USES)				
Transfer from Fire and Ambulance Fund	20,000	20,000	150,000	130,000
Transfer to Police Fund	(75,000)	(75,000)	(75,000)	-
Transfer to Wastewater Fund	(55,000)	(55,000)	(10,000)	45,000
Total transfers out	(130,000)	(130,000)	(85,000)	45,000
Total other financing sources (uses)	(110,000)	(110,000)	65,000	175,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(430,000)	(415,946)	16,225	432,171
FUND BALANCES - BEGINNING	486,469	486,469	486,469	-
FUND BALANCES - ENDING	$ 56,469	$ 70,523	$ 502,694	$ 432,171

Township of Covert
BUDGETARY COMPARISON SCHEDULE - *Police Fund*
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
REVENUES				
Taxes - property	$ 359,000	$ 359,000	$ 376,362	$ 17,362
State grants:				
Training grant	-	-	1,406	1,406
Liquor license fees	-	-	844	844
Total state grants	-	-	2,250	2,250
Fines and forfeitures - ordinance fines	-	-	6,592	6,592
Interest	800	800	1,035	235
Other	9,000	9,000	14,127	5,127
Total revenues	368,800	368,800	400,366	31,566
EXPENDITURES				
Public safety - police operations	538,800	523,100	441,248	81,852
Capital outlay	55,000	70,700	57,985	12,715
Total expenditures	593,800	593,800	499,233	94,567
DEFICIENCY OF REVENUES OVER EXPENDITURES	(225,000)	(225,000)	(98,867)	126,133
OTHER FINANCING SOURCES				
Transfer from General Fund	75,000	75,000	75,000	-
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(150,000)	(150,000)	(23,867)	126,133
FUND BALANCES - BEGINNING	174,509	174,509	174,509	-
FUND BALANCES - ENDING	$ 24,509	$ 24,509	$ 150,642	$ 126,133

Township of Covert
BUDGETARY COMPARISON SCHEDULE - *Fire and Ambulance Fund*
Year ended June 30, 2006

	Original budget	*Amended budget*	*Actual*	*Variance favorable (unfavorable)*
REVENUES				
Taxes - property taxes	$ 580,370	$ 580,370	$ 592,372	$ 12,002
Federal grants	35,000	35,000	112,102	77,102
Charges for services	75,000	75,000	120,670	45,670
Interest	500	500	3,038	2,538
Sale of equipment	-	-	152,275	152,275
Contributions	-	-	7,180	7,180
Other	5,000	5,000	4,928	(72)
Total revenues	695,870	695,870	992,565	296,695
EXPENDITURES:				
Public safety	758,870	777,500	524,758	252,742
Capital outlay	40,000	171,370	283,335	(111,965)
Debt service:				
Principal	7,000	7,000	7,000	-
Interest	20,000	20,000	4,028	15,972
Total expenditures	825,870	975,870	819,121	156,749
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(130,000)	(280,000)	173,444	453,444
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	-	150,000	150,000	-
Transfer to General Fund	(20,000)	(20,000)	(150,000)	(130,000)
Total other sources (uses)	(20,000)	130,000	-	(130,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(150,000)	(150,000)	173,444	323,444
FUND BALANCES - BEGINNING	241,392	241,392	241,392	-
FUND BALANCES - ENDING	$ 91,392	$ 91,392	$ 414,836	$ 323,444

SUPPLEMENTARY INFORMATION

Township of Covert
COMBINING BALANCE SHEET - *nonmajor governmental funds*
June 30, 2006

	Special revenue funds			Total nonmajor governmental funds
	Roads	Hospital	Loan	
ASSETS				
Cash	$ 399,824	$ -	$ 86,564	$ 486,388
Receivables, net	-	-	13,299	13,299
Total assets	$ 399,824	$ -	$ 99,863	$ 499,687
FUND BALANCES				
Reserved - long-term receivables	$ -	$ -	$ 13,299	$ 13,299
Unreserved, undesignated	399,824	-	86,564	486,388
Total fund balances	$ 399,824	$ -	$ 99,863	$ 499,687

Township of Covert

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - *nonmajor governmental funds*

Year ended June 30, 2006

	Special revenue funds			*Total nonmajor governmental funds*
	Roads	*Hospital*	*Loan*	
REVENUES				
Taxes	$ 125,447	$ 99,698	$ -	$ 225,145
Interest	6,092	-	3,362	9,454
Total revenues	131,539	99,698	3,362	234,599
EXPENDITURES				
Public works	75,783	-	-	75,783
Health and welfare	-	99,698	-	99,698
Total expenditures	75,783	99,698	-	175,481
EXCESS OF REVENUES OVER EXPENDITURES	55,756	-	3,362	59,118
FUND BALANCES - BEGINNING	344,068	-	96,501	440,569
FUND BALANCES - ENDING	$ 399,824	$ -	$ 99,863	$ 499,687

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INDEPENDENT AUDITORS' 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*

Board of Trustees
Township of Covert, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan (the Township), as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated December 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements, and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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.*

Siegfried Crandall P.C.

December 4, 2006