

September 29, 2006

To the Township Board
Acme Township

In planning and performing our audit of the financial statements for the Acme Township for the year ended June 30, 2006, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

As a result of our audit, we have prepared the following report which includes required letters and other information presented in the following sections:

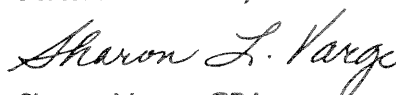
- Part I - Current year items
- Part II - Prior year items in process
- Part III - Prior year items implemented
- Part IV - New Accounting and Regulatory Pronouncements

This letter relates to the status of internal controls during the fiscal year ending June 30, 2006.

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

Very truly yours,

Plante & Moran, PLLC



Sharon Vargo, CPA
Partner

C: Bill Kurtz, Supervisor

Part I - Current Year Items

Reportable Conditions

Lack of Bank Reconciliation Policy (repeat from 2005) - Bank account reconciliations to the general ledger are not dated and therefore it cannot be determined if they are completed in a timely manner. As of June 30, 2005, the reconciliation of the general cash account does not appear to be in a standard reconciliation format. We recommend that the Township board implement a formal bank reconciliation policy to include a standard reconciliation format, as well as preparer and reviewer signatures and dates upon completion.

During the fiscal year June 30, 2006 audit, we noted a standard reconciliation format starting after November 2005. Throughout our testing, we did not note preparer and reviewer signatures on the actual reconciliation. We recommend the preparer initial and date the reconciliation on the day it was prepared and the reviewer initial on the day it was reviewed in order to ensure timely bank reconciliations are completed.

Lack of Segregation of Duties - Property Tax Cash Account (partial repeat from 2005)

The Township receives property tax payment checks in the mail and these checks are put in the treasurer's box to be picked up and deposited by the treasurer or deputy treasurer. The entire cash receipt process is conducted by the deputy treasurer including the bank reconciliation. This creates a lack of segregation of duties. We recommend having the person who opens the mail make a listing of property tax checks received and reconcile the total checks received with the checks listed on the deposit slip prepared by the deputy treasurer.

Wire Transfers - Both the treasurer and deputy treasurer have the ability to initiate wire transfers to bank accounts outside of the Township's Fifth Third Bank accounts without a secondary approval. This creates an opportunity to remove cash from the Township without the knowledge of other Township staff. We recommend the Township restrict wire transfer authority to accounts identified as a Township account. This should be implemented immediately. In addition, any wire transfers between Township accounts should identify a preparer and reviewer for documentation of these transactions. Ideally, transfers initiated by the treasurer or deputy treasurer should be reviewed by the clerk or deputy clerk.

Other Items

Cash Disbursements - During review of invoice packets to support cash disbursements, we noted that invoices were not being cancelled (i.e., stamped "PAID") or did not have documentation that a reviewer signed off on approval for payment. This could create an opportunity to pay an invoice twice. However, it was noted that the Board does perform an extensive review of expenditures included in their monthly board packets. We recommend stamping all invoices paid to ensure that an invoice does not get paid twice and a reviewer signing off on the check run or each invoice to ensure proper payments are going out to existing vendors at approved amounts.

Part I - Current Year Items (Continued)

Accounts Payable - We noted that the Township's financial software, Fund Balance, will only produce a current listing of outstanding invoices to be paid (accounts payable). A listing as of June 30, 2006 was not printed on that date and we were unable to reconcile the clerk's manual list of accounts payable to the balance in Fund Balance. As a result, additional testing was completed to verify the actual balance by reviewing cash disbursements issued after year-end. We recommend keeping a record of all outstanding invoices monthly in order to efficiently track what is outstanding at the end of each month and agreeing the amount to the balance in accounts payable on the general ledger.

Cash Receipts - We noted that review procedures are not in place to agree the deposit slip to the cash receipts making up the deposit. This could allow for a missing cash receipt in any given deposit. We suggest the receptionist reconcile the deposit slip to the deposit and initial the deposit slip and corresponding cash receipt(s) to note the reconciliation.

Petty Cash - We found that all employees have access to petty cash. Petty cash is made up of a small balance of cash and reconciled occasionally. Currently, the Township allows all employees access to a shared petty cash drawer. This reduces accountability and increases the likelihood of errors. We recommend increasing controls over this petty cash. Some methods to increase control would be to reduce the number of employees who have access to the cash, provide each employee with their own locked cash box along with responsibility for keeping records on it, and institute daily cash counts and reconciliations.

Property Tax Receiving Fund Activity - We found that the Township is recording the property tax receipts for all collections as revenue in the Property Tax Agency Fund in the Township's system, Fund Balance. These funds are being passed-through the Township and therefore should be recorded using an "Undistributed Tax Funds" liability account, which will be reduced when the cash is disbursed to other taxing units.

Part II - 2005 Items in Process

Other Items

Vacation Policy - The vacation policy does not specifically identify timing. It states that employees are awarded time and must use it before the end of the year because it cannot be carried forward into future years. However, it does not say if it is based on a calendar or fiscal year. In addition, days awarded and used are not tracked in the payroll system. Employees are trusted to keep track of their own paid time off and not abuse the system. We recommend the Township revise the policy to be more specific as to the timing and include procedures for tracking and verifying appropriate awarding and usage of these paid days off.

Status at June 30, 2006 - We noted that the clerk is in the process of drafting a new policy for the board to review, but the policy was not in effect by fiscal year end June 30, 2006.

Check Disbursement Approval - There is no documentation of the reviewer signing off on checks prior to the check run to determine if the checks are approved for payment. However, the risk of unapproved checks being cut is mitigated by the requirement of two check signers, one of which is the treasurer. We recommend the Township manager or supervisor pre-approve and sign off on the check run before the checks are printed. This can be documented through the purchase order system the Township implemented subsequent to the year ended June 30, 2005. The implemented purchase order system should be reviewed to ensure that pre-numbered purchase orders are used; the purchase order should state proper detail of item(s) to be purchased, require a signed authorization, and be attached to the invoice before payment is allowed.

Status at June 30, 2006 - Two signatures are now required for each check disbursed and along with a supporting purchase order. However, we did not note a reviewer sign off on the check runs or individual invoices.

Computer System - Network usernames are set up for all Township staff. However, it is not required that everyone set their passwords or change their passwords on a regular basis. Backups are performed daily utilizing a tape drive. The backup tapes are kept in the clerk's office. We recommend that the password function of the network logins be utilized in addition to a set schedule for changing them on a regular basis (monthly, or at a minimum quarterly). We also recommend that backup tapes be stored off site or in a fireproof safe.

Status at June 30, 2006 - In progress

Part III - 2005 Items Implemented

Reportable Conditions

Lack of Segregation of Duties - Cash Receipts - Cash receipts (checks and cash) are received by mail and in person by the receptionist at the Township hall. The receptionist records all receipts made in person in a receipt book (that is not pre-numbered), giving out the original to the taxpayer. These payments along with those received in the mail are put into the treasurer's box to be deposited. The deputy treasurer makes copies of the checks, deposits the receipts, and records the activity in an Excel ledger. Non-property tax amounts are totaled and given to the clerk to record in the general ledger using a yellow pre-numbered receipt. The check copies are not attached to the deposit slip package. During testing, we found one check that was not deposited in a timely manner. We also found a page in the cash receipt book at the Township secretary's office was missing two copies of cash receipts.

We recommend the board review this process and make necessary changes to provide more segregation in the cash receipt process. Currently, the deputy treasurer is solely responsible for the entire cash receipt process.

There are a number of ways to correct this situation. The Township could invest in Fund Balance's cash receipt module (as implemented by East Bay Township) and utilize the Township secretary for input of all cash receipts into the system, with reconciliations by the clerk and treasurer. In lieu of purchasing that computer module, the Township secretary could keep a listing of all cash receipts to be reconciled to the bank, or the Township secretary could prepare the deposit slip and the Township manager could deposit the cash. The key is to have more than one staff handle the cash to protect each other. Regardless, a pre-numbered receipt book should be purchased and utilized to record all incoming cash or checks.

A copy of the deposited checks should be kept with the deposit package and the preparer of the deposit should sign off on the package. We recommend making weekly bank deposits, at the minimum, or as soon as cash receipts are received. Also, the bank receipt should be kept and included in the bank deposits package.

Status at June 30, 2006 - We noted several improvements in internal control related to cash receipts. A pre-numbered receipt book is now being used; there is a second cash count of all cash received in the Township by two different staff members (the receptionist and another staff); deposit check copies are kept with each deposit slip; the receptionist receives a copy of each deposit slip after the deputy treasurer makes the deposit; we noted timely deposits during testing.

Part III - 2005 Items Implemented (Continued)

Lack of Segregation of Duties - Property Tax Cash Account - Currently, there is only one Township staff handling the property tax cash account. As of June 30, 2005, the activity of this cash account is not included in the Fund Balance software or reports to the board (i.e., revenue and expenditures, balance sheet, etc.). Monies from this account are being disbursed by manual checks with only one required signature, the Township treasurer. This represents a lack of segregation of duties. Also, the tax cash account does not receive canceled checks or canceled check copies.

We recommend that the treasurer and clerk begin procedures to include the property tax cash account activity in fund balance. This will serve as a control check on the activity. We also recommend that dual signatures be required for all checks relating to this account, in addition to requesting canceled/mini checks be included with bank statements.

Status at June 30, 2006 - We noted during our testing that there are two required signatures for manual checks written and the Township now receives copies of mini checks. Review of the general ledger detail transactions indicated that the Township has included cash activity in a tax collections fund in Fund Balance in the current year.

Other Items

Lack of Special Revenue Fund Budget - The Farmland Preservation Special Revenue Fund was set up without a budget for the fiscal year ended June 30, 2005. A budget is required for all Special Revenue Funds by the Uniform Accounting and Budgeting Act (Public Act 621). The Township must set up a budget and amend it as necessary for all Special Revenue Funds.

Status at June 30, 2006 - The budget for the Farmland Preservation Special Revenue Fund was completed for the fiscal year ended June 30, 2006.

Hourly Versus Salaried Payroll - The deputy clerk was allocated a budgeted annual pay for the fiscal year. During the year, the deputy clerk was paid on an hourly basis, utilizing an estimated hourly rate to pay more during high hour work periods. However, this resulted in paying the deputy clerk more than the budgeted annual pay. It appears that the Township is designating a salary, but actually paying based on hours worked. This cost the Township much more than it budgeted.

Additionally, the salary line item for maintenance and parks increased from \$45,502 at June 30, 2004 to \$76,475 at June 30, 2005, due to a change in pay for maintenance employees from salary to hourly plus overtime. This is a significant increase, and may not have been the board's intent.

We understand that the board reviews expenditures and payroll; however, we would like to point out the applicability of a year-to-date comparison to the prior year and how it can be useful in making decisions.

Part III - 2005 Items Implemented (Continued)

We recommend the board consider changing the payroll system for these "hourly" salary people. For employees who are given a maximum wage for the year, but work sporadically throughout the year, the Township should consider paying a flat salary, or assign an hourly rate to be revised once total pay approaches the total budgeted allowance for the employee's pay. In addition, the board should review salaries expense in comparison to prior year, as well as to budgeted amounts. If the hourly system is maintained, we recommend, at a minimum, an approval process for overtime be implemented.

Status at June 30, 2006 - Salaries and wages actual expenditures for June 30, 2006 were much closer to budgeted numbers in the current year. The salary line item for maintenance and parks actually decreased in the current fiscal year as compared to prior year. It was noted that a new policy was set up to eliminate overtime hours and wages.

Journal Entries Documentation - Supporting documentation (i.e., the backup or detailed reason) for journal entries is not maintained by the Township. We found that there were minimal manual journal entries posted during the fiscal year ended June 30, 2005. Also, it was noted that the treasurer and board spend significant time reviewing individual line items and would catch a material misstatement. We recommend the Township institute procedures to attach supporting documentation or notes to explain each journal entry.

Status at June 30, 2006 - Journal entries are now supported with documentation attached as of June 30, 2006.

Policies - The Township does not have a formal written policy on the proper usage of the Township credit card. The Township is required to adopt an applicable policy as required by Public Act 266 of 1995 (MCL 129.241).

Status at June 30, 2006 - There is a new written formal policy in effect in the current year.

The written investment policy, adopted by the board in 1998, is not in compliance with GASB No. 40 or with the 1997 updates to the state law under Public Act 196 of 1997. However, current investments held by the Township do not have a risk component as required by GASB No. 40 nor are they considered illegal under the state law at June 30, 2005. We recommend the board adopt a new investment policy that is GASB No. 40 and Public Act 196 of 1997 compliant and review investment allocations biannually to ensure compliance with the policy.

Status at June 30, 2006 - There is a new written formal policy in effect in the current year.

There is no formal written policy approved by the board regarding ACH/EFT payments and transfers. We recommend that the board adopt a policy regarding the use of ACH transfers and EFTs and periodically review the policy for compliance. The State of Michigan requires adoption of this policy.

Status at June 30, 2006 - Implemented

Part III - 2005 Items Implemented (Continued)

Special Assessments - A special assessment balance report was not printed as of June 30, 2005. Due to time sensitivity, the report produced for the audit contained payments received after year end that needed to be adjusted to get to the accurate June 30, 2005 balance by property tax parcel. Although the payments were easily identified and the correct balance was able to be documented, this may not always be the case. We recommend that the treasurer print the special assessment "Parcel Balances for Acme Township" report on the last day of the fiscal year for record-keeping purposes.

Status at June 30, 2006 - We received the Parcel Balances for Acme Township report as of June 30, 2006 and it agreed with the general ledger.

Part IV - New Accounting and Regulatory Pronouncements

New Standards - The AICPA issued statements on auditing standards (Statement on Auditing Standards 104 - 111) that will substantially affect the auditing process. The effective date for the Township will be for the audit of the financial statements for the year ending June 30, 2008. At this point, the impact of these standards on our auditing process is being evaluated and we will continue to keep you apprised of the status.

Exposure Draft on Proposed Statement on Auditing Standards - On September 1, 2005, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued an Exposure Draft of a proposed Statement on Auditing Standards (SAS), which would supersede SAS 60, *Communication of Internal Control Related Matters Noted in an Audit*. The proposed effective date is for audits of financial statements for periods ending on or after December 31, 2006 (June 30, 2007 for the Township).

This exposure draft establishes standards and provides guidance to enhance the auditor's communication responsibility to the audit committee or its equivalent concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The exposure draft defines internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term reportable condition), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or its equivalent in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or 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.



Acme Township

June 30, 2006

plante
moran

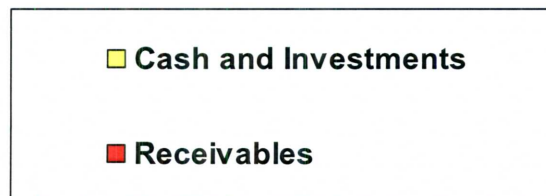
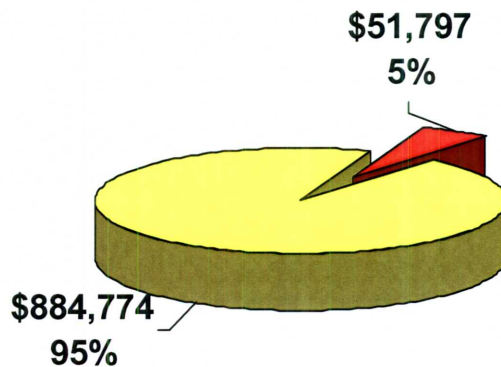
Acme Township

General Fund Assets and Liabilities

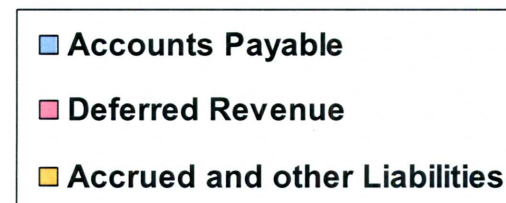
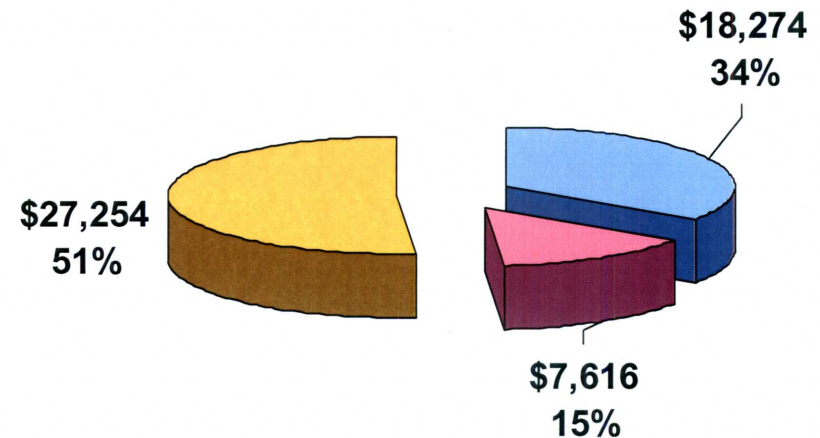
June 30, 2006



Assets = \$936,571



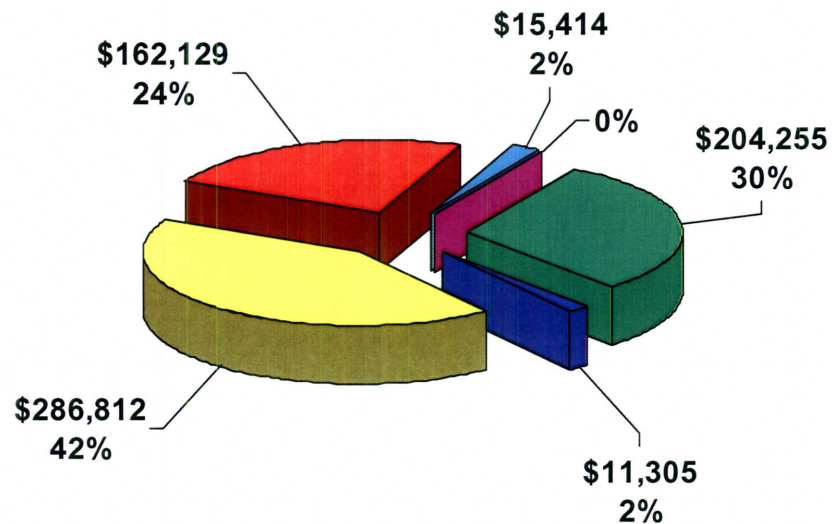
Liabilities = \$53,144



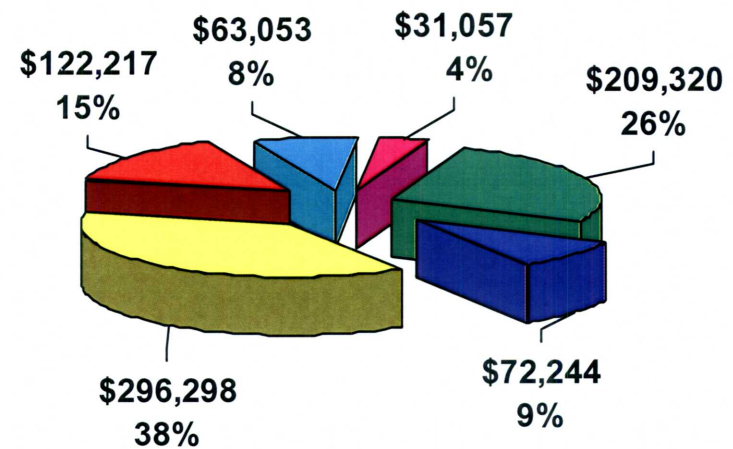
Acme Township General Fund Revenue Year Ended June 30



2005 = \$679,915



2006 = \$794,189

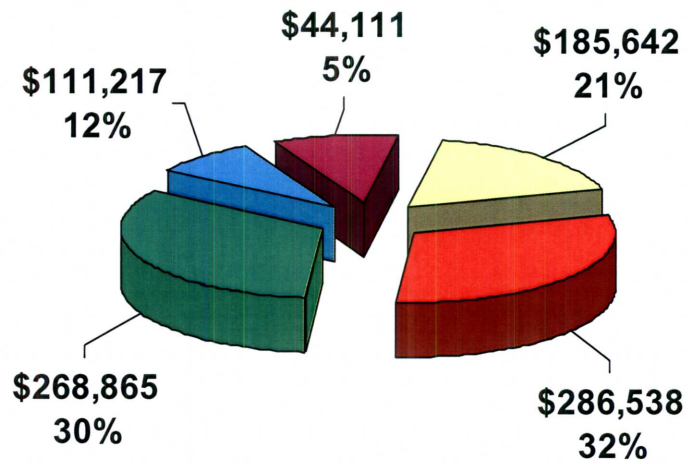


| | | |
|------------------------|------------------------|------------------------|
| ■ Property Taxes | ■ Licenses and Permits | ■ State-Shared Revenue |
| ■ Charges for Services | ■ Other | ■ Interest |

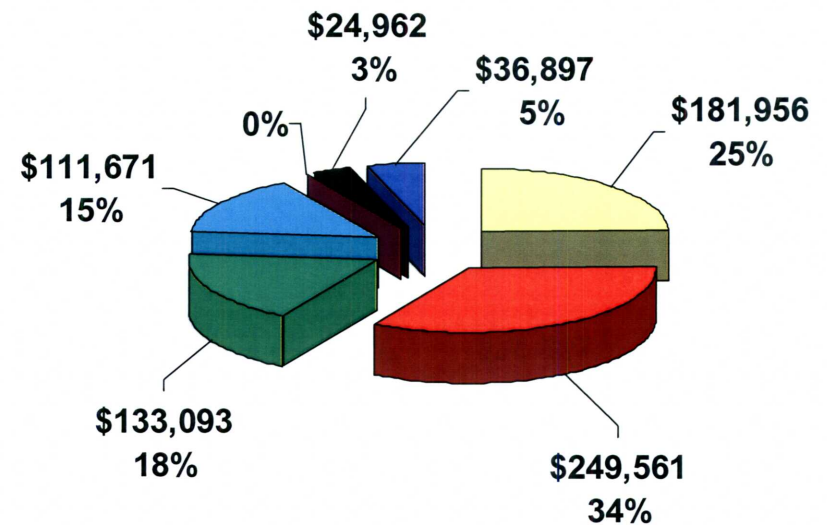
Acme Township General Fund Expenditures Year Ended June 30



2005 = \$896,373



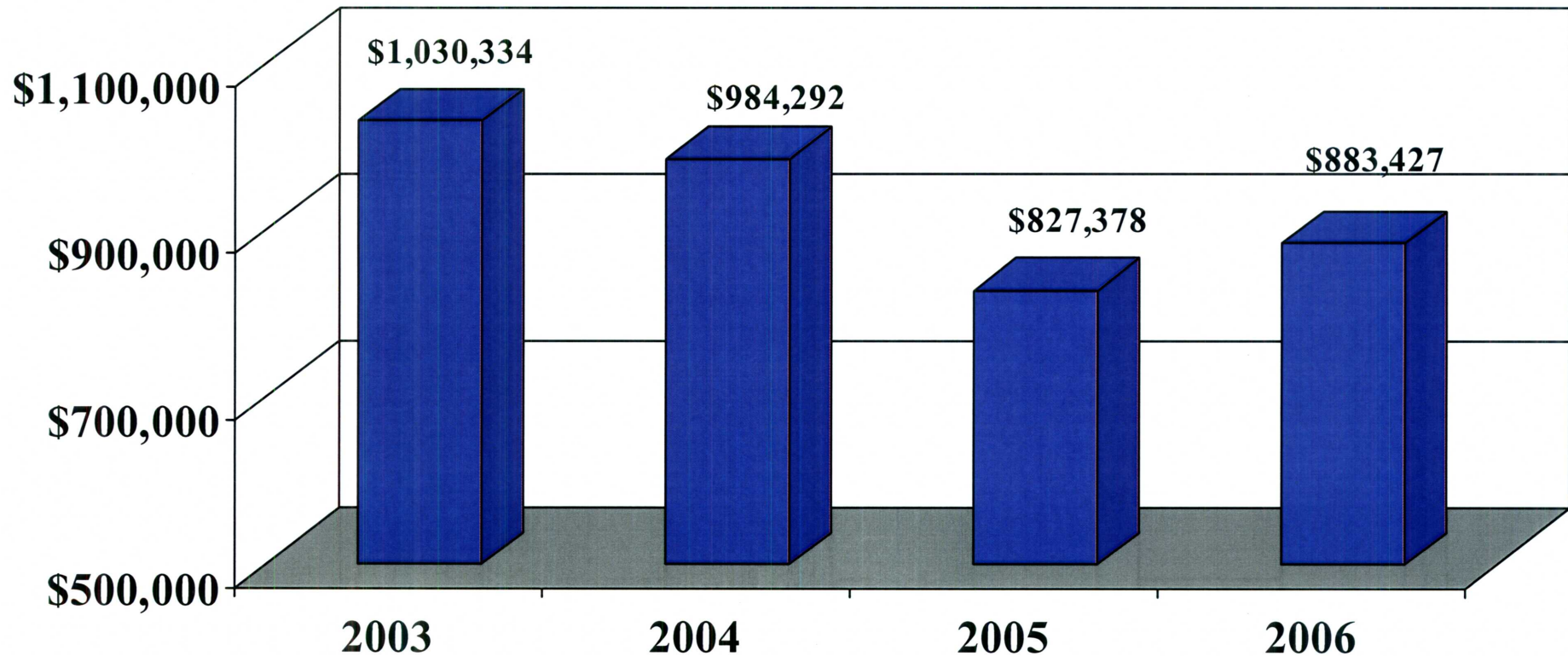
2006 = \$738,140



- Legislative
- General Government
- Public Safety
- Recreation and Culture
- Other
- Community & Economic Development
- Capital Outlay

Acme Township

General Fund – Fund Balance June 30



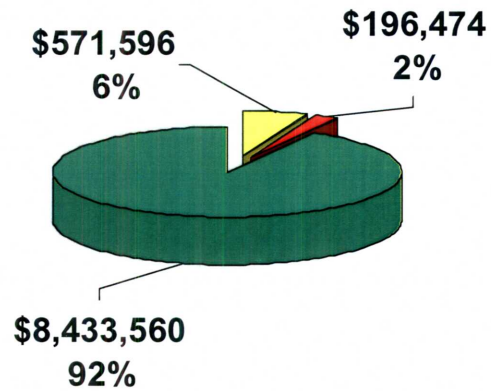
Acme Township

Water and Sewer Assets and Liabilities

June 30, 2006

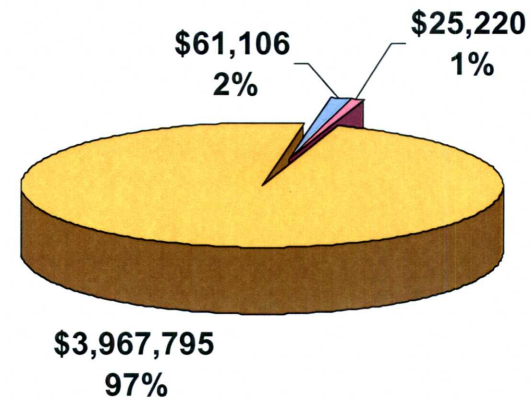


Assets = \$9,201,630



■ Cash and Investments
■ Receivables
■ Capital Assets

Liabilities = \$4,054,121

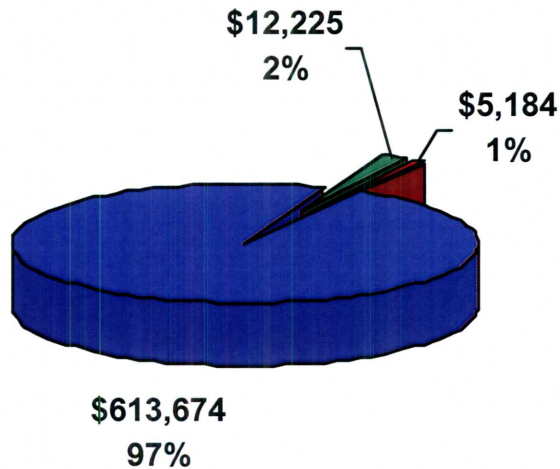


■ Accounts Payable
■ Accrued Liabilities
■ LTD

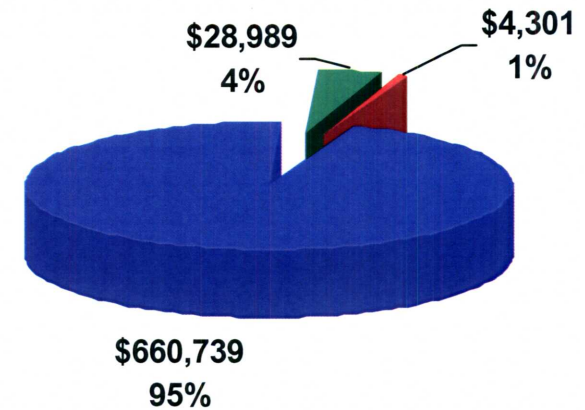
Acme Township Water and Sewer Revenue Year Ended June 30



2005= \$631,083



2006= \$694,029

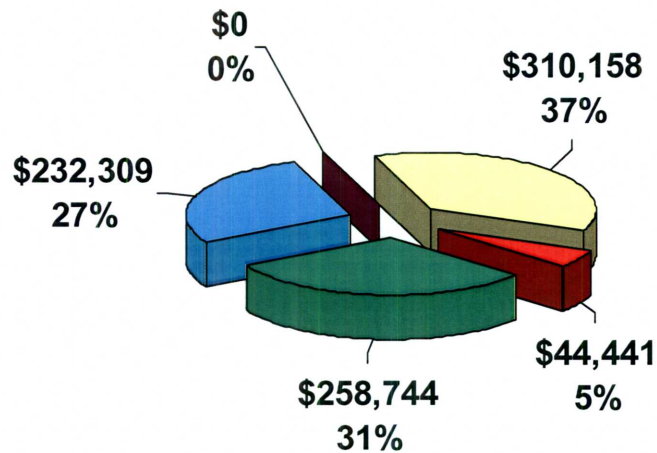


- Usage and Connection Fees
- Investment Income
- Other

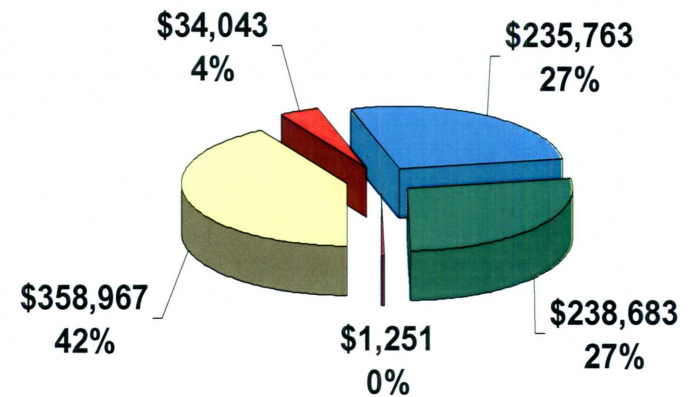
Acme Township Water and Sewer Expenses Year Ended June 30



2005 = \$845,652

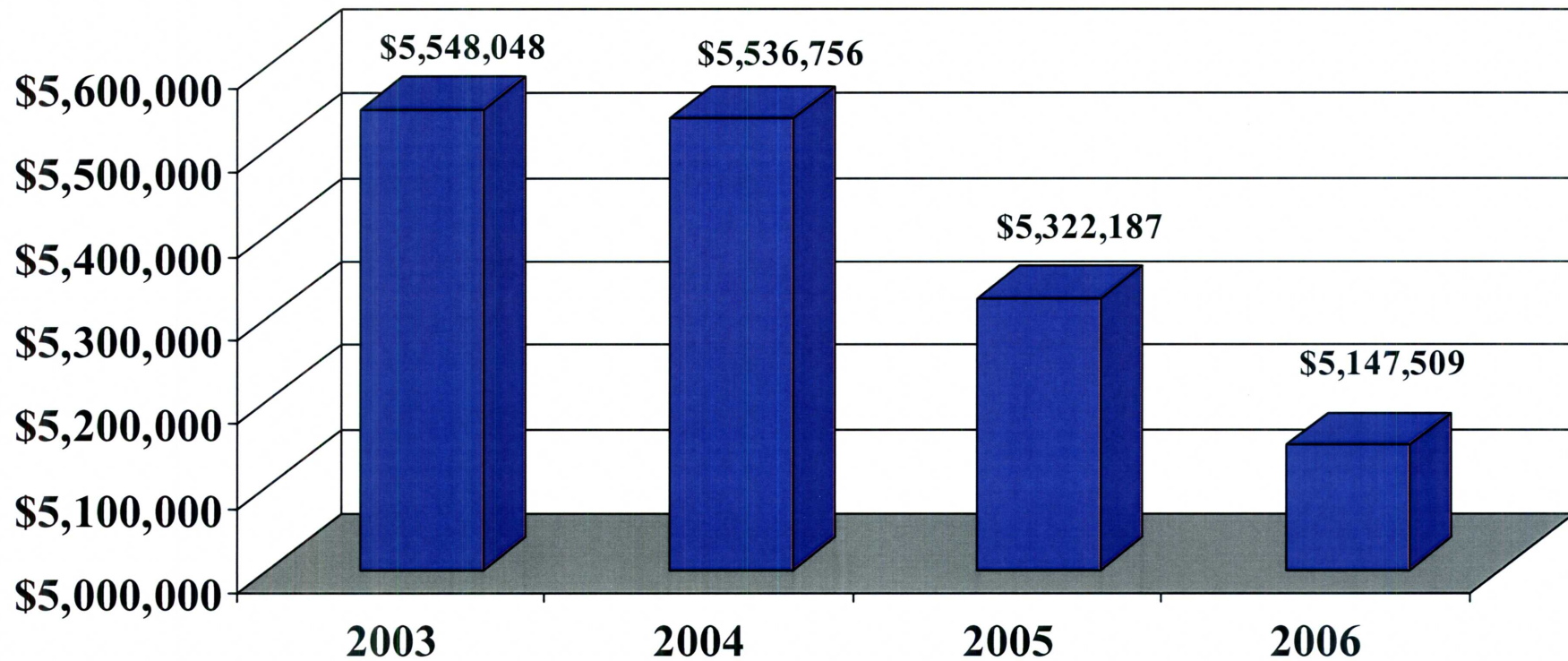


2006 = \$868,707



| | | |
|---------------|----------------|--------------|
| Cost of Water | Capacity Lease | Debt Service |
| Depreciation | Other | |

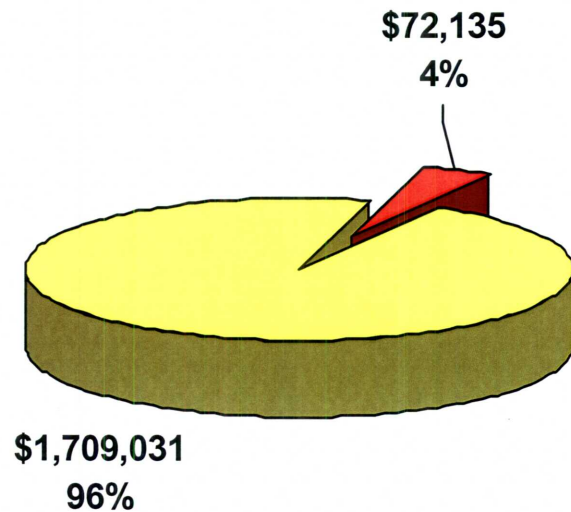
Acme Township Water and Sewer – Net Assets June 30



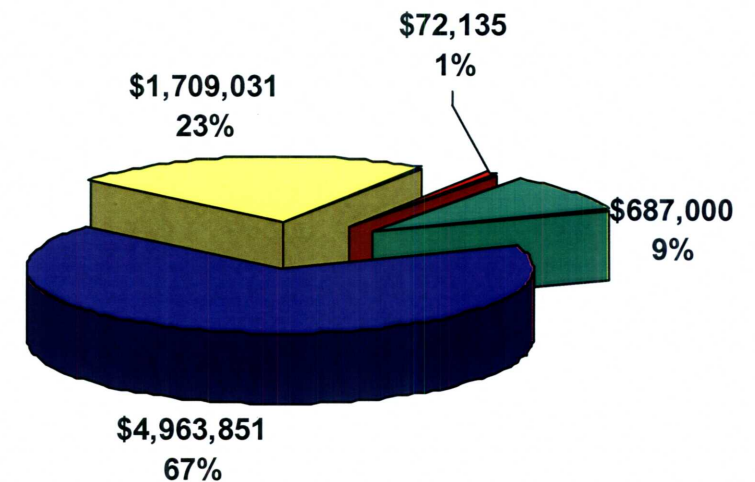
Acme Township Assets Fund Level vs. Government Wide



Fund Level
\$1,781,166



Government Wide
\$7,432,017



- Cash and Investments
- Receivables
- Investment in Joint Venture
- Capital Assets

Acme Township

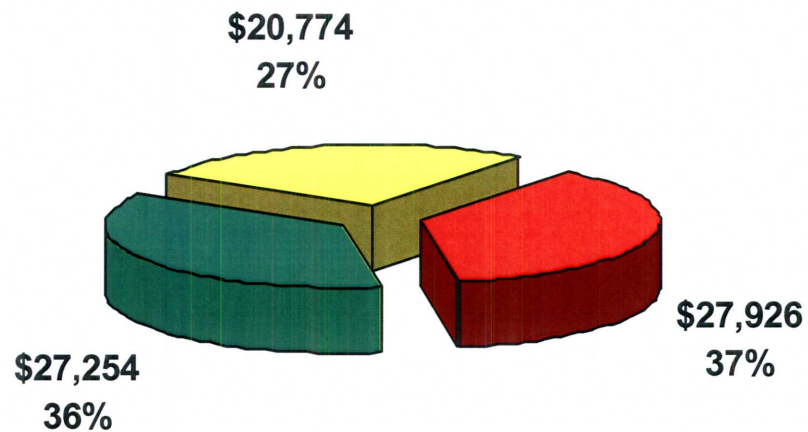
Liabilities

Fund Level vs. Government Wide



Fund Level

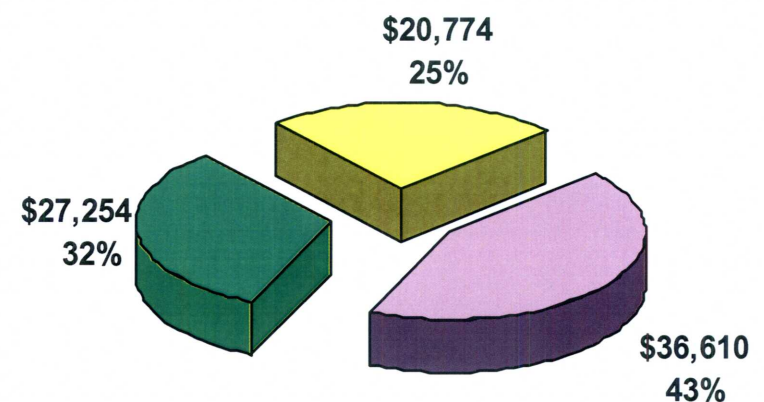
\$75,954



Accounts Payable
 Deferred Revenue

Government Wide

\$84,638



Accounts Payable
 Long-term Debt
 Accrued & Other

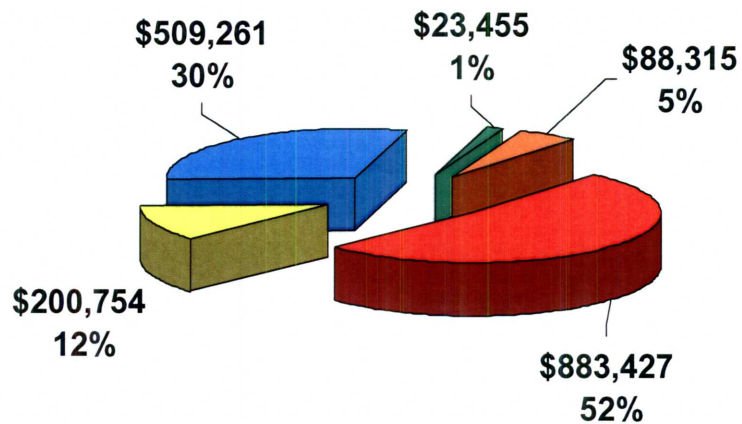
Acme Township

Fund Balance to Net Assets Reconciliation

June 30, 2006

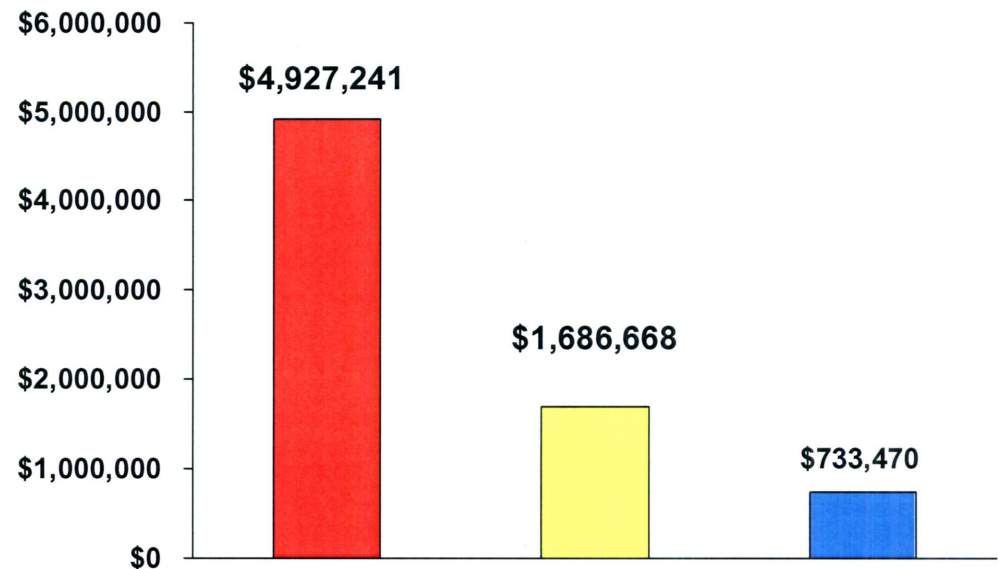


Fund Level Total = \$1,705,212



- General
- Farmland Preservation
- Other Nonmajor
- Fire
- Arnold Road Assessment

Government-Wide Total = \$7,347,379



- Invested in Capital Assets
- Unrestricted
- Restricted



Thank you for the opportunity to serve as auditors for Acme Township

For more information contact:

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Acme Township
Grand Traverse County, Michigan

Financial Report
with Supplemental Information
June 30, 2006

Acme Township

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Independent Auditor's Report

To the Board of Trustees
Acme Township
Grand Traverse County, 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 Acme Township as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Acme Township, 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. 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 Acme Township as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Acme Township
Grand Traverse County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Acme Township, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental 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.

Plante & Moran, PLLC

September 29, 2006

Acme Township

Management's Discussion and Analysis

Our discussion and analysis of Acme Township, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- Property taxes related to the Township's governmental activities increased by approximately \$47,000 due to increased property values.
- Total net assets related to the Township's governmental activities increased by approximately \$454,000 and the unrestricted portion of net assets increased by approximately \$176,000. The Township had increased legal fees, but managed the increase due to cost cutting and an increased value of its joint venture in the Metro Fire Department.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

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

Acme Township

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|-------------------------|-----------------|--------------------------|-----------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current assets | \$ 1,781 | \$ 1,413 | \$ 768 | \$ 2,046 | \$ 2,549 | \$ 3,459 |
| Noncurrent assets | 5,651 | 5,541 | 8,434 | 8,669 | 14,085 | 14,210 |
| Total assets | 7,432 | 6,954 | 9,202 | 10,715 | 16,634 | 17,669 |
| Current liabilities | 54 | 19 | 359 | 68 | 413 | 87 |
| Long-term liabilities | 31 | 42 | 3,695 | 5,325 | 3,726 | 5,367 |
| Total liabilities | 85 | 61 | 4,054 | 5,393 | 4,139 | 5,454 |
| Net assets: | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 4,927 | 4,914 | 4,441 | 4,460 | 9,368 | 9,374 |
| Restricted - Debt Service | 23 | 26 | - | - | 23 | 26 |
| Restricted - Fire Operations | 201 | 195 | - | - | 201 | 195 |
| Restricted - Farmland Preservation | 509 | 247 | - | - | 509 | 247 |
| Unrestricted | 1,687 | 1,511 | 707 | 862 | 2,394 | 2,373 |
| Total net assets | <u>\$ 7,347</u> | <u>\$ 6,893</u> | <u>\$ 5,148</u> | <u>\$ 5,322</u> | <u>\$ 12,495</u> | <u>\$ 12,215</u> |

The Township's combined net assets increased 2 percent from a year ago - increasing from \$12.2 million to \$12.5 million. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities increased by approximately \$454,000 and net assets of business-type activities decreased by approximately \$174,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$176,000 for the governmental activities. This represents an increase of approximately 22.7 percent. The current level of unrestricted net assets for our governmental activities stands at \$1.6 million, or about 142 percent of expenditures.

Acme Township

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year (in thousands of dollars):

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------|-------------------------|--------------|--------------------------|-----------------|---------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenue | | | | | | |
| Program revenue - | | | | | | |
| Charges for services | \$ 194 | \$ 173 | \$ 661 | \$ 614 | \$ 855 | \$ 787 |
| General revenue: | | | | | | |
| Property taxes | 908 | 861 | - | - | 908 | 861 |
| State-shared revenue | 296 | 287 | - | - | 296 | 287 |
| Unrestricted | | | | | | |
| investment earnings | 51 | 12 | 29 | 12 | 80 | 24 |
| Transfers and other | | | | | | |
| revenue | 76 | 23 | 4 | 5 | 80 | 28 |
| Total revenue | 1,525 | 1,356 | 694 | 631 | 2,219 | 1,987 |
| Program Expenses | | | | | | |
| Legislative | 182 | 186 | - | - | 182 | 186 |
| General government | 273 | 311 | - | - | 273 | 311 |
| Public safety | 461 | 630 | - | - | 461 | 630 |
| Community and | | | | | | |
| economic development | 36 | 39 | - | - | 36 | 39 |
| Recreation and culture | 117 | 116 | - | - | 117 | 116 |
| Interest on long-term debt | 2 | 2 | - | - | 2 | 2 |
| Water and sewer | - | - | 868 | 846 | 868 | 846 |
| Total program | | | | | | |
| expenses | 1,071 | 1,284 | 868 | 846 | 1,939 | 2,130 |
| Change in Net Assets | \$ 454 | \$ 72 | \$ (174) | \$ (215) | \$ 280 | \$ (143) |

Governmental Activities

The Township's total governmental revenues increased by approximately \$169,000. The increase, which represents 12.5 percent, was primarily due to increased tax receipts and investment returns.

Expenses decreased by about \$213,000 during the year. Approximately \$100,000 of the reduction related to general and litigation-related legal expenses. Election expenditures were \$12,000 lower than the previous year as fewer elections were held. Costs for planning consulting services were approximately \$18,000 lower than the prior year, representing a nearly 50% reduction.

Acme Township

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. The Grand Traverse County Department of Public Works (GTDPW) provides water services to the residents of Grand Traverse County, including Acme Township. GTDPW bills the residents for these services and passes the related funds on to the Township.

The Township entered into a master sewer agreement with the City of Traverse City and various townships in Grand Traverse and Leelanau Counties, as well as Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all multi-user facilities. The Township pays an amount sufficient to cover its pro rata share of treatment plant costs, as determined by its volume of sewage treated in relation to total sewage treated at the plant.

Revenue and expenses from the sale of water and sewage disposal were approximately \$661,000 and \$359,000, respectively, for the year ended June 30, 2006. Additional costs incurred in relation to both water and sewer included depreciation expense of approximately \$236,000, interest expense of \$239,000, and an additional capacity fee to the County of about \$34,000.

The Township's Funds

Our analysis of the Township's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 include the General Fund, Fire Fund, Farmland Preservation Fund, Arnold Road Assessment Fund, and Water and Sewer Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to increase estimated investment return approximately \$23,500 over initial projections based on actual performance. Township departments overall were close to budget, resulting in total expenditures of approximately \$66,000 below budget. This produced an overall increase in the General Fund's fund balance from approximately \$827,000 a year ago to \$883,000 at June 30, 2006.

Acme Township

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the Township had \$13.4 million invested in a broad range of capital assets, including land, buildings, police and fire equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Grand Traverse County Road Commission (along with the responsibility to maintain them).

Debt

At the end of this year, the Township had \$4.0 million in bonds outstanding versus \$5.3 million in the previous year in the Water and Sewer Fund - a change of 25 percent.

In addition, the Township partially defeased \$1,134,463 of a 2003 sewer bond issue in February 2006 in order to save approximately \$713,000 in future interest expense through 2023. The savings during the 2005-2006 fiscal year were expected to be approximately \$7,000 and will accelerate over time.

Economic Factors and Next Year's Budgets and Rates

For the 2006-2007 fiscal year, the Township has budgeted for a decrease of approximately \$64,500 in revenue from 2005-2006 in the General Fund, primarily due to concerns regarding pending legislation that could reduce or eliminate the revenue stream from cable television franchise fees. Increases in the taxable value of real property will be largely offset by the Headlee rollback mandated for the township's operating millage, and state-shared sales tax revenue is anticipated to remain constant.

The Township has projected General Fund expenditures of approximately \$740,574 for the fiscal year 2006-2007, essentially holding the line as compared to expenditures of \$738,140 in 2005-2006. The Board of Trustees maintains a strong commitment to a balanced budget whereby current year revenues match or exceed current year expenses.

Contacting the Township's Management

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

Acme Township

Statement of Net Assets June 30, 2006

| | Primary Government | | |
|--|---------------------|---------------------|----------------------|
| | Governmental | Business-type | |
| | Activities | Activities | Total |
| Assets | | | |
| Cash and cash equivalents (Note 2) | \$ 1,709,031 | \$ 571,596 | \$ 2,280,627 |
| Receivables - Net (Note 3) | 72,135 | 196,474 | 268,609 |
| Investment in joint venture (Note 9) | 687,000 | - | 687,000 |
| Capital assets - Nondepreciable (Note 4) | 4,729,143 | - | 4,729,143 |
| Capital assets - Net (Note 4) | <u>234,708</u> | <u>8,433,560</u> | <u>8,668,268</u> |
| Total assets | 7,432,017 | 9,201,630 | 16,633,647 |
| Liabilities | | | |
| Accounts payable | 20,774 | 61,106 | 81,880 |
| Accrued and other liabilities | 27,254 | 25,220 | 52,474 |
| Noncurrent liabilities (Note 6): | | | |
| Due within one year | 5,442 | 273,211 | 278,653 |
| Due in more than one year | <u>31,168</u> | <u>3,694,584</u> | <u>3,725,752</u> |
| Total liabilities | <u>84,638</u> | <u>4,054,121</u> | <u>4,138,759</u> |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 4,927,241 | 4,440,545 | 9,367,786 |
| Restricted - Debt service | 23,455 | - | 23,455 |
| Restricted - Fire Operations | 200,754 | - | 200,754 |
| Restricted - Farmland Preservation | 509,261 | - | 509,261 |
| Unrestricted | <u>1,686,668</u> | <u>706,964</u> | <u>2,393,632</u> |
| Total net assets | <u>\$ 7,347,379</u> | <u>\$ 5,147,509</u> | <u>\$ 12,494,888</u> |

Acme Township

Statement of Activities Year Ended June 30, 2006

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---------------------|-------------------|---|---------------------|----------------------|
| | | | Primary Government | | |
| | Charges for | | Governmental | Business-type | |
| Expenses | Services | | Activities | Activities | Total |
| Functions/Programs | | | | | |
| Primary government - Governmental activities: | | | | | |
| Legislative | \$ 181,956 | \$ - | \$ (181,956) | \$ - | \$ (181,956) |
| General government | 273,623 | 122,217 | (151,406) | - | (151,406) |
| Public safety | 461,093 | 72,244 | (388,849) | - | (388,849) |
| Community and economic development | 36,286 | - | (36,286) | - | (36,286) |
| Recreation and culture | 116,738 | - | (116,738) | - | (116,738) |
| Interest on long-term debt | 1,825 | - | (1,825) | - | (1,825) |
| Total governmental activities | 1,071,521 | 194,461 | (877,060) | - | (877,060) |
| Business-type activities - Water and sewer | 868,707 | 660,739 | - | (207,968) | (207,968) |
| Total primary government | <u>\$ 1,940,228</u> | <u>\$ 855,200</u> | (877,060) | (207,968) | (1,085,028) |
| General revenues: | | | | | |
| Property taxes | | | 907,222 | - | 907,222 |
| State-shared revenues | | | 296,298 | - | 296,298 |
| Unrestricted investment earnings | | | 51,336 | 28,989 | 80,325 |
| Miscellaneous | | | 76,272 | 4,301 | 80,573 |
| Total general revenues | | | 1,331,128 | 33,290 | 1,364,418 |
| Change in Net Assets | | | 454,068 | (174,678) | 279,390 |
| Net Assets - Beginning of year | | | 6,893,311 | 5,322,187 | 12,215,498 |
| Net Assets - End of year | | | <u>\$ 7,347,379</u> | <u>\$ 5,147,509</u> | <u>\$ 12,494,888</u> |

Acme Township

Governmental Funds Balance Sheet June 30, 2006

| | General Fund | Fire Fund | Farmland Preservation | Holiday Road Assessment | Shores Road Assessment | Woodridge Shores Road Assessment | Arnold Road Assessment | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------------------|-------------------|-------------------|-----------------------|-------------------------|------------------------|----------------------------------|------------------------|-----------------------------|--------------------------|
| Assets | | | | | | | | | |
| Cash and cash equivalents | \$ 884,774 | \$ 200,726 | \$ 511,761 | \$ - | \$ - | \$ - | \$ 23,455 | \$ 88,315 | \$ 1,709,031 |
| Receivables - Net (Note 3) | 51,797 | 28 | - | - | - | - | 20,310 | - | 72,135 |
| Total assets | <u>\$ 936,571</u> | <u>\$ 200,754</u> | <u>\$ 511,761</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,765</u> | <u>\$ 88,315</u> | <u>\$ 1,781,166</u> |
| Liabilities and Fund Balances | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Accounts payable | \$ 18,274 | \$ - | \$ 2,500 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 20,774 |
| Accrued and other liabilities | 27,254 | - | - | - | - | - | - | - | 27,254 |
| Deferred revenue (Note 3) | 7,616 | - | - | - | - | - | 20,310 | - | 27,926 |
| Total liabilities | 53,144 | - | 2,500 | - | - | - | 20,310 | - | 75,954 |
| Fund Balances | | | | | | | | | |
| Reserved for debt service | - | - | - | - | - | - | 23,455 | - | 23,455 |
| Unreserved | 50,000 | - | - | - | - | - | - | - | 50,000 |
| Designated for zoning lawsuits | - | - | - | - | - | - | - | - | - |
| Undesignated reported in: | | | | | | | | | |
| General Fund | 833,427 | 200,754 | 509,261 | - | - | - | - | 88,315 | 833,427 |
| Special Revenue Funds | - | - | - | - | - | - | - | - | 798,330 |
| Total fund balances | 883,427 | 200,754 | 509,261 | - | - | - | 23,455 | 88,315 | 1,705,212 |
| Total liabilities and fund balances | <u>\$ 936,571</u> | <u>\$ 200,754</u> | <u>\$ 511,761</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,765</u> | <u>\$ 88,315</u> | <u>\$ 1,781,166</u> |
| | | | | | | | | | \$ 1,705,212 |

Total Fund Balances for Governmental Funds

Amounts reported for governmental activities in the statement of net assets are different because:

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

Joint venture investments used in governmental activities are not financial resources and are not reported in the funds

Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Net assets of governmental activities

4,963,851
687,000
27,926
(36,610)

\$ 7,347,379

The Notes to Financial Statements are an
Integral Part of this Statement.

Acme Township

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

| | General Fund | Fire Fund | Farmland Preservation | Holiday Road Assessment | Woodridge Shores Road Assessment | Arnold Road Assessment | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|-----------------|--------------|--------------------------|----------------------------|--|---------------------------|---|--------------------------------|
| Revenue | | | | | | | | |
| Property taxes | \$ 209,320 | \$ 366,460 | \$ 261,898 | \$ - | \$ - | \$ - | \$ 72,898 | \$ 910,576 |
| Licenses and permits | 72,244 | - | - | - | - | - | - | 72,244 |
| State-shared revenues and grants | 296,298 | - | - | - | - | - | - | 296,298 |
| Charges for services | 122,217 | - | - | - | - | - | - | 122,217 |
| Interest | 31,057 | 4,753 | 11,906 | - | - | 910 | 2,710 | 51,336 |
| Other | 63,053 | - | - | - | - | 3,348 | 9,871 | 76,272 |
| Total revenue | 794,189 | 371,213 | 273,804 | - | - | 4,258 | 85,479 | 1,528,943 |
| Expenditures | | | | | | | | |
| Current: | | | | | | | | |
| Legislative | 181,956 | - | - | - | - | - | - | 181,956 |
| General government | 249,561 | - | - | - | - | - | - | 249,561 |
| Public safety | 133,093 | 365,940 | - | - | - | 17 | 64,043 | 563,093 |
| Community and economic development | 24,962 | - | 11,324 | - | - | - | - | 36,286 |
| Recreation and culture | 111,671 | - | - | - | - | - | - | 111,671 |
| Capital outlay | 36,897 | - | - | - | - | - | - | 36,897 |
| Debt service | - | - | - | - | - | 7,016 | - | 7,016 |
| Total expenditures | 738,140 | 365,940 | 11,324 | - | - | 7,033 | 64,043 | 1,186,480 |
| Excess of Revenue Over (Under) Expenditures | 56,049 | 5,273 | 262,480 | - | - | (2,775) | 21,436 | 342,463 |
| Other Financing Sources (Uses) | | | | | | | | |
| Transfers in (Note 5) | - | - | - | - | - | - | 29,084 | 29,084 |
| Transfers out (Note 5) | - | - | - | - | - | - | (29,084) | (29,084) |
| Total other financing sources (uses) | - | - | - | - | - | - | - | - |
| Net Change in Fund Balances | 56,049 | 5,273 | 262,480 | - | - | (2,775) | 21,436 | 342,463 |
| Fund Balances - Beginning of year | 827,378 | 195,481 | 246,781 | - | - | 26,230 | 66,879 | 1,362,749 |
| Fund Balances - End of year | \$ 883,427 | \$ 200,754 | \$ 509,261 | \$ - | \$ - | \$ 23,455 | \$ 88,315 | \$ 1,705,212 |

The Notes to Financial Statements are an
Integral Part of this Statement.

Acme Township

Proprietary Funds Statement of Net Assets June 30, 2006

| | Enterprise - Water and Sewer |
|--|------------------------------------|
| Assets | |
| Current assets - Cash and cash equivalents | \$ 571,596 |
| Receivables - Net: | |
| Accounts | 139,789 |
| Special assessments | 56,685 |
| Total current assets | 768,070 |
| Noncurrent assets - Capital assets | 8,433,560 |
| Total assets | 9,201,630 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 61,106 |
| Accrued and other liabilities | 25,220 |
| Current portion of long-term debt | 273,211 |
| Total current liabilities | 359,537 |
| Noncurrent liabilities - Long-term debt - Net of current portion | 3,694,584 |
| Total liabilities | 4,054,121 |
| Net Assets | |
| Investment in capital assets - Net of related debt | 4,440,545 |
| Unrestricted | 706,964 |
| Total net assets | <u>\$ 5,147,509</u> |

Acme Township

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

| | Enterprise - Water and Sewer |
|--|------------------------------------|
| Operating Revenue - Usage and connection fees | \$ 660,739 |
| Operating Expenses | |
| Cost of water produced/purchased | 358,967 |
| Capacity lease payments | 34,043 |
| Depreciation | 235,763 |
| Other | <u>1,251</u> |
| Total operating expenses | <u>630,024</u> |
| Operating Income | 30,715 |
| Nonoperating Revenue (Expense) | |
| Investment income | 28,989 |
| Special assessments interest income | 4,301 |
| Interest expense | <u>(238,683)</u> |
| Change in Net Assets | (174,678) |
| Net Assets - Beginning of year | <u>5,322,187</u> |
| Net Assets - End of year | <u><u>\$ 5,147,509</u></u> |

Acme Township

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

| | Enterprise - Water and Sewer |
|---|------------------------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 667,790 |
| Payments to suppliers | (340,301) |
| Payments on capacity lease | <u>(34,043)</u> |
| Net cash provided by operating activities | 293,446 |
| Cash Flows from Capital and Related Financing Activities | |
| Collection of customer assessments (principal and interest) | 12,545 |
| Principal and interest paid on capital debt | (497,716) |
| Bond defeasement | <u>(1,100,000)</u> |
| Net cash used in capital and related financing activities | (1,585,171) |
| Cash Flows from Investing Activities - Interest received on investments | <u>28,989</u> |
| Net Decrease in Cash and Cash Equivalents | (1,262,736) |
| Cash and Cash Equivalents - Beginning of year | <u>1,834,332</u> |
| Cash and Cash Equivalents - End of year | <u><u>\$ 571,596</u></u> |
| Reconciliation of Operating Income to Net Cash from Operating Activities | |
| Operating income | \$ 30,715 |
| Adjustments to reconcile operating income to net cash from operating activities - Depreciation and amortization | 235,763 |
| Changes in assets and liabilities: | |
| Receivables | 7,052 |
| Accounts payable | <u>19,916</u> |
| Net cash provided by (used in) operating activities | <u><u>\$ 293,446</u></u> |

Acme Township

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Acme Township (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Acme Township:

Reporting Entity

Acme Township is governed by an elected seven-member board. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of 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 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 revenue.

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

Note I - Summary of Significant Accounting Policies (Continued)

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. Revenue is 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

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.

The Township reports the following major governmental funds:

General Fund - 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.

Fire Fund - The Fire Fund accounts for the operation of the Township fire department. Financing is provided by a special property tax levy.

Farmland Preservation Fund - The Farmland Preservation Fund accounts for costs on establishing a system of farmland preservation. Financing is provided by a special property tax levy.

Note 1 - Summary of Significant Accounting Policies (Continued)

Arnold Road Assessment Fund - The Arnold Road Assessment Fund accounts for the financing and completion of road repairs.

The Township reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the results of operations that provide water and sewer services to residents, financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fiduciary activities:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

The Township also reports the following non-major funds:

Police Protection Fund - The Police Protection Fund accounts for the costs of the Township police contract with the County.

Liquor Fund - The Liquor Fund accounts for liquor license fees refunded by the State and utilization for enforcement of the State's liquor laws through the Police Protection Fund.

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 Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating 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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$262.3 million, on which taxes levied consisted of 0.7967 mills for operating purposes, 1.4522 mills for fire protection (1 mill applies to taxable real property only of \$249 million), 0.2764 mills for police protection, and 1 mill for farmland preservation. This resulted in approximately \$209,000 for operating, \$366,000 for fire protection, \$73,000 for police protection, and \$262,000 for farmland preservation. These amounts are recognized in the respective General and Special Revenue Funds financial statements as property tax revenue.

Acme Township

Notes to Financial Statements June 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Pooled interest income from the General Fund, Special Revenue Funds, and Debt Service Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due 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 trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, water, and sewer lines), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 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 the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--|----------------|
| Road improvements | 15 to 20 years |
| Water and sewer distribution and treatment systems | 50 years |
| Buildings and building improvements | 40 to 50 years |
| Vehicles | 3 to 5 years |
| Equipment | 3 to 7 years |

Compensated Absences (Vacation and Sick Leave) - The Township's policy for compensated absences does not allow unused time to accumulate or vest.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Acme Township

Notes to Financial Statements June 30, 2006

Note 2 – Deposits (Continued)

The Township has designated one bank for the deposit of its funds. The investment policy adopted by the board, in accordance with Public Act 196 of 1997, has authorized all of the investments in the state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash is subject to the following risk examined below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$2,180,627 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Receivables

Receivables as of June 30, 2006 for the Township's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Arnold Road Assessment | Fire Fund | Total |
|---------------------|------------------|---------------------------|--------------|------------------|
| Receivables: | | | | |
| Special assessments | \$ 7,159 | \$ 18,943 | \$ - | \$ 26,102 |
| Intergovernmental | 44,181 | - | - | 44,181 |
| Interest and other | 457 | 1,367 | 28 | 1,852 |
| Net receivables | <u>\$ 51,797</u> | <u>\$ 20,310</u> | <u>\$ 28</u> | <u>\$ 72,135</u> |

Acme Township

Notes to Financial Statements June 30, 2006

Note 3 – Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is 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. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable |
|---------------------|-------------|
| Special assessments | \$ 27,926 |

Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

| | Balance July 1, 2005 | Additions | Balance June 30, 2006 |
|---|-------------------------|-----------|--------------------------|
| Governmental Activities | | | |
| Capital assets not being depreciated - Land | \$ 4,729,143 | \$ - | \$ 4,729,143 |
| Capital assets being depreciated: | | | |
| Road improvements | 50,191 | - | 50,191 |
| Buildings and improvements | 233,202 | - | 233,202 |
| Vehicles | 50,671 | - | 50,671 |
| Equipment | 61,064 | 31,625 | 92,689 |
| Subtotal | 395,128 | 31,625 | 426,753 |
| Accumulated depreciation: | | | |
| Road improvements | 5,020 | 2,510 | 7,530 |
| Buildings and improvements | 114,515 | 6,362 | 120,877 |
| Vehicles | 12,534 | 5,067 | 17,601 |
| Equipment | 36,119 | 9,918 | 46,037 |
| Subtotal | 168,188 | 23,857 | 192,045 |
| Net capital assets being depreciated | 226,940 | 7,768 | 234,708 |
| Net capital assets | \$ 4,956,083 | \$ 7,768 | \$ 4,963,851 |

Acme Township

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets (Continued)

| Business-type Activities | July 1, 2005 | Additions | June 30, 2006 |
|---|---------------------|---------------------|---------------------|
| Capital assets being depreciated - Water and sewer distribution systems | \$ 11,789,826 | \$ - | \$ 11,789,826 |
| Accumulated depreciation - Water and sewer distribution and treatment systems | 3,120,503 | 235,763 | 3,356,266 |
| Net capital assets | <u>\$ 8,669,323</u> | <u>\$ (235,763)</u> | <u>\$ 8,433,560</u> |

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

| | |
|--------------------------------|-------------------|
| Governmental activities: | |
| General government | \$ 18,790 |
| Recreation and culture | <u>5,067</u> |
| Total governmental activities | <u>\$ 23,857</u> |
| Business-type activities: | |
| Water | \$ 3,540 |
| Sewer | <u>232,223</u> |
| Total business-type activities | <u>\$ 235,763</u> |

Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

| Fund Providing Resources | Fund Receiving Resources | Amount |
|--------------------------|--------------------------|------------------|
| Liquor Fund | Police Fund | <u>\$ 29,084</u> |

The Liquor Fund accumulates liquor license fees from the State and transfers to the Police Protection Fund to pay for police services.

Acme Township

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

| | Beginning Balance | Reductions | Ending Balance | Due Within One Year |
|---------------------------------|----------------------|----------------|-------------------|------------------------|
| Governmental Activities | | | | |
| Installment purchase agreements | \$ 41,801 | \$ (5,191) | \$ 36,610 | \$ 5,442 |
| Business-type Activities | | | | |
| General obligation bonds | \$ 5,114,890 | \$ (1,327,095) | \$ 3,787,795 | \$ 243,211 |
| Special assessment bonds | 210,000 | (30,000) | 180,000 | 30,000 |
| Total business-type activities | \$ 5,324,890 | \$ (1,357,095) | \$ 3,967,795 | \$ 273,211 |

Acme Township

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt (Continued)

Long-term obligations consist of the following:

Governmental Activities

Installment note payable to local bank, used to repair Arnold Road, bearing interest of 4.3%, maturing in December 2007 \$ 36,610

Business-type Activities

1992 Grand Traverse County Sewage Disposal System #2 General Obligation Bond (#322), used to improve lift station and forcemain, bearing interest from 5.85% to 6.4%, maturing in 2011 \$ 95,000

1993 Grand Traverse County Sewage Disposal System #2 Special Assessment General Obligation Bond (#326), used to fund the special assessment district for home hook-up, bearing interest from 5.15% to 5.50%, maturing in 2011 180,000

1995 Traverse City Wastewater Treatment Plant General Obligation Bond (#328), used to increase capacity of regional treatment plant and upgrade pump station, bearing interest from 5.05% to 5.70%, maturing in 2015 195,916

1998 Traverse City Wastewater Treatment Plant General Obligation Bond (#330), used to improve odor control at regional plant, bearing interest from 4% to 4.5%, maturing in 2013 78,471

2002 Traverse City Wastewater Treatment Plant - 2002 Upgrade General Obligation Bond (#334), used to upgrade regional treatment plant and purchase property for new plant, bearing interest from 2.75% to 5%, maturing in 2022 2,439,479

2003 Grand Traverse County Sewer and Water Projects: Acme, East Bay, Peninsula Townships General Obligation Bond (#336), used for sewer relief, bearing interest from 2.25% to 5%, maturing in 2023 978,929

Total \$ 3,967,795

Acme Township

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

| | Governmental Activities | | | Business-type Activities | | |
|-----------|-------------------------|----------|-----------|--------------------------|--------------|--------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2007 | \$ 5,442 | \$ 1,573 | \$ 7,015 | \$ 273,211 | \$ 164,052 | \$ 437,263 |
| 2008 | 31,168 | 1,156 | 32,324 | 277,495 | 155,371 | 432,866 |
| 2009 | - | - | - | 280,113 | 145,932 | 426,045 |
| 2010 | - | - | - | 289,182 | 135,873 | 425,055 |
| 2011 | - | - | - | 303,956 | 124,836 | 428,792 |
| 2012-2016 | - | - | - | 1,402,809 | 449,289 | 1,852,098 |
| 2017-2021 | - | - | - | 925,720 | 191,036 | 1,116,756 |
| 2022-2026 | - | - | - | 215,309 | 10,405 | 225,714 |
| Total | \$ 36,610 | \$ 2,729 | \$ 39,339 | \$ 3,967,795 | \$ 1,376,794 | \$ 5,344,589 |

During the current year, the Township defeased \$1,100,000 of 2003 Grand Traverse Sewer and Water Projects debt through the application of unspent bond proceeds. This defeasance was completed pursuant to terms as outlined by the State of Michigan and resulted in the reduction of debt service payments over the next 18 years of approximately \$713,192. The economic gain resulting from this transaction approximated \$7,100. The portion of 2003 Grand Traverse Sewer and Water Projects debt defeased has been removed from long-term debt.

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical claims and participates in the Michigan Townships Participating Plan for all other claims except that the Township is self-insured for land use lawsuits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Acme Township

Notes to Financial Statements June 30, 2006

Note 7 - Risk Management (Continued)

The Township has determined that there is no liability for land use claims that have been incurred through the end of the fiscal year, including both claims that have been reported as well as those that have not yet been reported. All land use reviews initiated prior to June 30, 2006 have been finalized and no appeals were issued within the statutory time limit.

Note 8 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after 12 months of employment with a minimum age of 21. As established by A.G. Edwards & Sons, Inc., the Township contributes 10 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after four years of service.

The Township's total payroll during the current year was \$337,158. The current year contribution was calculated based on covered payroll of \$266,358, resulting in an employer contribution of \$26,636 and employee contributions of \$1,317.

Note 9 - Joint Venture

The Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2010 with the City of Traverse City, the Townships of Acme, Peninsula, and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all multi-user facilities. Ownership of the treatment plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit to itself and the townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the townships as to the treatment plant's operation and the townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of treatment plant costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

Acme Township

Notes to Financial Statements June 30, 2006

Note 9 - Joint Venture (Continued)

The Township is responsible for debt service on the debt issues listed in Note 6 as determined biannually based upon the percentage of the Township's flow to the total flow through the treatment plant. For the biannual period ended June 30, 2005, the Township's percentage was 7.62 percent.

The Township also contributes its Fire Fund tax levy to the Grand Traverse County Fire Department - Metro Division (Metro). Metro is a joint venture between the Township and East Bay and Garfield Townships of Grand Traverse County. The Township's equity interest was 18.9 percent at June 30, 2006. This equity interest is adjusted annually and the June 30, 2006 equity interest balance is approximately \$687,000. There are no known circumstances that would cause an additional benefit or burden to the Township in the future. Financial statements are available upon request at the Grand Traverse Metro Fire Department, 897 Parsons Road, Traverse City, Michigan 49686.

Note 10 - Contingent Liabilities

The Township is currently the defendant in five related lawsuits (all dealing with zoning issues). The range of potential loss is from zero to in excess of \$1 million. Township management believes that the potential loss can not be estimated, and therefore is not recorded on the Township's Statement of Net Assets.

Required Supplemental Information

Acme Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|--------------------|-------------------|-------------------|------------------------------------|
| Revenue | | | | |
| Property taxes | \$ 209,591 | \$ 208,651 | \$ 209,320 | \$ 669 |
| State sources | 304,777 | 304,777 | 296,298 | (8,479) |
| Fees and permits | 35,000 | 72,244 | 72,244 | - |
| Charges for services | 163,500 | 122,217 | 122,217 | - |
| Interest income | 7,500 | 31,057 | 31,057 | - |
| Other | 500 | 32,787 | 63,053 | 30,266 |
| Total resources (inflows) | 720,868 | 771,733 | 794,189 | 22,456 |
| Expenditures | | | | |
| Legislative | 112,742 | 178,086 | 181,956 | 3,870 |
| General government: | | | | |
| Elections | 5,075 | 6,534 | 6,534 | - |
| Assessor | 35,800 | 34,407 | 33,789 | (618) |
| Clerk | 69,038 | 60,193 | 68,580 | 8,387 |
| Board of Review | 838 | 732 | 732 | - |
| Treasurer | 52,095 | 49,605 | 53,406 | 3,801 |
| Township Hall | 41,200 | 37,074 | 37,074 | - |
| Cemetery | 500 | 424 | 424 | - |
| Supervisor | 47,031 | 43,638 | 49,022 | 5,384 |
| Public safety - Planning and zoning | 189,752 | 147,649 | 133,093 | (14,556) |
| Recreation and culture - Maintenance | 89,830 | 160,666 | 111,671 | (48,995) |
| Other: | | | | |
| Retirement/Pension | 20,500 | 2,197 | - | (2,197) |
| FICA | 28,500 | 28,500 | - | (28,500) |
| Insurance | 19,000 | 18,436 | - | (18,436) |
| Other | 5,070 | 24,962 | 24,962 | - |
| Capital outlay | 16,150 | 10,962 | 36,897 | 25,935 |
| Total charges to appropriations (outflows) | 733,121 | 804,065 | 738,140 | (65,925) |
| Net Change in Fund Balance | (12,253) | (32,332) | 56,049 | 88,381 |
| Fund Balance - Beginning of year | 827,378 | 827,378 | 827,378 | - |
| Fund Balance - End of year | <u>\$ 815,125</u> | <u>\$ 795,046</u> | <u>\$ 883,427</u> | <u>\$ 88,381</u> |

Other Supplemental Information

Acme Township

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

| | <u>Special Revenue Funds</u> | | Total Nonmajor Governmental Funds |
|---|------------------------------|------------------------|--|
| | <u>Police Protection</u> | <u>Liquor Fund</u> | |
| Assets | | | |
| Assets - Cash and cash equivalents | <u>\$ 88,315</u> | <u>\$ -</u> | <u>\$ 88,315</u> |
| Fund Balances - Unreserved | <u>\$ 88,315</u> | <u>\$ -</u> | <u>\$ 88,315</u> |

Acme Township

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

| | Special Revenue Funds | | Total Nonmajor Governmental Funds |
|--|-----------------------|----------------|---|
| | Police Protection | Liquor Fund | |
| Revenue | | | |
| Property taxes | \$ 72,898 | \$ - | \$ 72,898 |
| Interest income | 1,471 | 1,239 | 2,710 |
| Other | 9,871 | - | 9,871 |
| Total revenue | 84,240 | 1,239 | 85,479 |
| Expenditures - Public works | 64,032 | 11 | 64,043 |
| Excess of Revenue Over Expenditures | 20,208 | 1,228 | 21,436 |
| Other Financing Sources (Uses) | | | |
| Transfers in | 29,084 | - | 29,084 |
| Transfers out | - | (29,084) | (29,084) |
| Total other financing sources (uses) | 29,084 | (29,084) | - |
| Net Change in Fund Balances | 49,292 | (27,856) | 21,436 |
| Fund Balances - Beginning of year | 39,023 | 27,856 | 66,879 |
| Fund Balances - End of year | <u>\$ 88,315</u> | <u>\$ -</u> | <u>\$ 88,315</u> |