

SUGAR ISLAND TOWNSHIP, CHIPPEWA COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

March 31, 2007

### Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Sugar Island Township	County Chippewa
Fiscal Year End March 31, 2007	Opinion Date August 17, 2007	Date Audit Report Submitted to State September 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

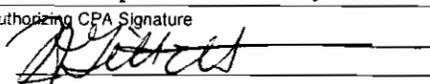
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Gillett, Halvorsen & Leonhardt, P.C.		Telephone Number (906) 635-1589
Street Address 478 W. Spruce Street, P.O. Box 437		City Sault Ste. Marie
		State MI
		Zip 49783
Authorizing CPA Signature 	Printed Name James A. Gillett	License Number 014856

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**GILLETT, HALVORSEN & LEONHARDT, P.C.**

Certified Public Accountants

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SAULT STE. MARIE, MICHIGAN 49783

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JAMES A. GILLETT  
JAMES E. HALVORSEN  
CHARLES W. LEONHARDT

**INDEPENDENT AUDITORS' REPORT**

MEMBER OF THE MICHIGAN  
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF THE AMERICAN  
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board  
Sugar Island Township  
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of Sugar Island Township as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of Sugar Island Township's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each Major Fund and aggregate remaining fund information of Sugar Island Township as of March 31, 2007, and the respective changes in financial position 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 on pages 3-7 and the budgetary comparisons on pages 30-36 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sugar Island Township's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gillett Halvorsen & Leonhardt PC*

Gillett, Halvorsen & Leonhardt, PC  
Certified Public Accountants

August 17, 2007  
Sault Ste. Marie, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2007

-----  
Within this section of Sugar Island Township annual financial report, the Township's management provides a narrative discussion and analysis of the financial activities of the Township for the fiscal year ended March 31, 2007. Sugar Island Township's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Township's primary government, unless otherwise noted.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Township also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Township's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information of the Township's overall status. Financial reporting on this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the township-wide statement of financial position presenting information that includes all of the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall economic health of the Township would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Township infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of this statement of activities is to show financial reliance of the Township's distinct activities or functions on revenues provided to the Township.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2007

=====

FUND FINANCIAL STATEMENTS

The Township has two kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Township's governmental funds. The statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between the two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements and schedules demonstrate compliance with the Township's adopted and final revised budget.

Fiduciary funds such as the Memorial Trust Fund are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund Township programs. Fiduciary fund financial statements report similarly to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which follows the notes to the financial statements.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2007

=====

TOWNSHIP AS A WHOLE

The Township's assets exceed its liabilities by \$906,215 for the fiscal year reported.

Total net assets are comprised of the following:

- (1) Capital assets of \$379,997 include land, property and equipment net of accumulated depreciation.
- (2) Net assets of \$-0- are restricted by constraints imposed from outside the Township such as grantors, laws or regulations.
- (3) Unrestricted net assets of \$526,218 represent the portion available to maintain the Township's continuing obligations.

The Township's governmental funds reported total ending fund balance of \$526,218 this year. This compares to the prior year ending fund balance of \$424,650 showing an increase of \$101,568 during the current year. This represents an increase of approximately 24%.

A comparative analysis was not performed as the Township has a population of less than 2000 people and is required to be audited every other year.

In a condensed format, the table below shows the net assets of the Township at March 31, 2007.

	Governmental Activities
	-----
Current assets	\$583,161
Restricted assets	-0-
Non-current assets	379,997
	-----
Total Assets	\$963,158
	-----
Current Liabilities	\$ 56,943
	-----
Net Assets	
Invested in capital assets	\$379,997
Restricted	-0-
Unrestricted	526,218
	-----
Total Net Assets	\$906,215
	=====

The Township reported a positive balance of \$906,215 in governmental activities with net assets increased by \$137,832, which represents an increase of approximately 16%.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2007

=====

THE TOWNSHIP AS A WHOLE (CONTINUED)

The following table shows the activities of Sugar Island Township for the year ended March 31, 2007.

	Governmental Activities
	-----
Program Revenues	
Charges for services	\$ 19,777
Operating grants	61,115
Capital grants	-0-
General Revenues	
Taxes	371,323
Interest and rents	17,670
Other revenue	24,391
	-----
Total Revenues	\$494,276
Program Expenses	
General government	\$ 92,770
Public safety	107,361
Public works	136,983
Recreation and cultural	11,631
Other expenses	7,699
	-----
Total Expenses	\$356,444
	-----
Change in Net Assets	\$137,832
	=====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUND

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported an ending fund balance of \$526,218 which is unrestricted indicating availability for continuing Township activities.

The general fund pays for all the Township's governmental services. These services were largely supported by property taxes and state shared revenues.

SUGAR ISLAND TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

March 31, 2007

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GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant changes were increases to expenditures for capital outlay. The Township's actual expenditures exceeded the budgeted expenditures in seven instances for a total of \$32,808 for the year ended March 31, 2007.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2007, the Township had \$379,997 invested in a broad range of capital assets net of accumulated depreciation, including buildings and fire and ambulance equipment. In addition, the Township has invested significantly in roads within the Township. The roads are not reported in the Township's financial statements because Michigan law makes these roads the property of the Chippewa County Road Commission (along with the responsibility to maintain them).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Because of the impact of Proposal A, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of 5% or inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, reductions in State Revenue sharing continues to impact the township.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: 6401 E. 1 1/2 Mile Road, Sault Ste. Marie, MI 49783 or (906) 635-9786.

BASIC FINANCIAL STATEMENTS

SUGAR ISLAND TOWNSHIP  
STATEMENT OF NET ASSETS

March 31, 2007

		GOVERNMENTAL ACTIVITIES
<hr style="border-top: 1px dashed black;"/>		
ASSETS		
Current Assets		
Cash and equivalents		\$522,016
Due from other funds		14,353
Due from other governmental units		11,292
Taxes receivable		35,500
		-----
Total Current Assets		\$583,161
Non-current Assets		
Buildings and equipment - net of depreciation		379,997
		-----
TOTAL ASSETS		\$963,158
		=====
LIABILITIES		
Current Liabilities		
Accounts payable		\$ 7,534
Due to other funds		13,909
Deferred revenue - taxes receivable		35,500
		-----
TOTAL LIABILITIES		\$ 56,943
NET ASSETS		
Invested in capital assets		\$379,997
Unrestricted		526,218
		-----
TOTAL NET ASSETS		\$906,215
		=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP  
STATEMENT OF ACTIVITIES

For the year ended March 31, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES
	CHARGES FOR EXPENSES	OPERATING SERVICES	CAPITAL GRANTS	NET GRANTS	
<b>GOVERNMENTAL ACTIVITIES</b>					
General government	\$ 92,770	\$10,062	\$ 47,021	\$ -0-	\$ (35,687)
Public safety					
Fire	47,766	-0-	5,775	-0-	(41,991)
Ambulance	51,851	9,079	3,600	-0-	(39,172)
Other	7,744	-0-	4,719	-0-	(3,025)
Public works	136,983	636	-0-	-0-	(136,347)
Recreation and cultural	11,631	-0-	-0-	-0-	(11,631)
Other expenditures	7,699	-0-	-0-	-0-	(7,699)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$356,444</b>	<b>\$19,777</b>	<b>\$ 61,115</b>	<b>\$ -0-</b>	<b>\$ (275,552)</b>
<b>CHANGE IN NET ASSETS</b>					
Net (Expense) Revenue					\$ (275,552)
<b>GENERAL REVENUES</b>					
Taxes					371,323
Interest and rents					17,670
Other revenue					24,391
<b>TOTAL GENERAL REVENUES</b>					<b>\$ 413,384</b>
<b>CHANGE IN NET ASSETS</b>					
					\$ 137,832
NET ASSETS - APRIL 1, 2006					768,383
NET ASSETS - MARCH 31, 2007					\$ 906,215

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP  
BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2007

	GENERAL FUND	FIRE FUND	AMBULANCE FUND
<b>ASSETS</b>			
Cash and equivalents	\$147,946	\$ 32,749	\$ 58,642
Due from other funds	444	13,909	-0-
Due from other governmental units	11,292	-0-	-0-
Taxes receivable	4,319	3,926	6,544
	-----	-----	-----
TOTAL ASSETS	\$164,001	\$ 50,584	\$ 65,186
	=====	=====	=====
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,959	\$ 1,092	\$ 4,080
Due to other funds	13,909	-0-	-0-
Deferred revenue - taxes receivable	4,319	3,926	6,544
	-----	-----	-----
TOTAL LIABILITIES	\$ 20,187	\$ 5,018	\$ 10,624
<b>FUND BALANCES</b>	143,814	45,566	54,562
	-----	-----	-----
TOTAL LIABILITIES AND FUND BALANCES	\$164,001	\$ 50,584	\$ 65,186
	=====	=====	=====

See accompanying notes to financial statements.

ROAD FUND	SOLID WASTE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
--------------	------------------------	--------------------------------	--------------------------------

\$195,879	\$ 73,978	\$ 12,822	\$522,016
-0-	-0-	-0-	14,353
-0-	-0-	-0-	11,292
15,098	5,613	-0-	35,500
-----	-----	-----	-----
\$210,977	\$ 79,591	\$ 12,822	\$583,161
=====	=====	=====	=====

\$ -0-	\$ 350	\$ 53	\$ 7,534
-0-	-0-	-0-	13,909
15,098	5,613	-0-	35,500
-----	-----	-----	-----
\$ 15,098	\$ 5,963	\$ 53	\$ 56,943
-----	-----	-----	-----
195,879	73,628	12,769	526,218
-----	-----	-----	-----
\$210,977	\$ 79,591	\$ 12,822	\$583,161
=====	=====	=====	=====

SUGAR ISLAND TOWNSHIP

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

March 31, 2007

=====

Total Fund Balances - Governmental Funds	\$526,218
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.	379,997
	-----
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$906,215
	=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended March 31, 2007

	GENERAL FUND	FIRE FUND	AMBULANCE FUND
REVENUES			
Taxes	\$ 59,084	\$ 42,444	\$ 46,124
Licenses and permits	400	-0-	-0-
State grants	47,021	1,175	-0-
Contributions from local units	-0-	4,600	3,600
Charges for services	9,662	-0-	9,079
Interest and rents	10,044	1,104	1,329
Other revenue	9,117	2,687	6,657
TOTAL REVENUES	\$135,328	\$ 52,010	\$ 66,789
EXPENDITURES			
General government	\$ 83,528	\$ -0-	\$ -0-
Public safety	7,024	21,591	46,508
Public works	1,845	-0-	-0-
Recreation and cultural	3,236	-0-	-0-
Other expenditures	7,699	-0-	-0-
Capital outlay	24,228	51,832	3,676
TOTAL EXPENDITURES	\$127,560	\$ 73,423	\$ 50,184
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 7,768	\$ (21,413)	\$ 16,605
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 3,637	\$ -0-	\$ -0-
Transfers out	-0-	-0-	-0-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 3,637	\$ -0-	\$ -0-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 11,405	\$ (21,413)	\$ 16,605
FUND BALANCES - APRIL 1, 2006	132,409	66,979	37,957
FUND BALANCES - MARCH 31, 2007	\$143,814	\$ 45,566	\$ 54,562

See accompanying notes to financial statements.

ROAD FUND	SOLID WASTE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$162,983	\$ 60,688	\$ -0-	\$ 371,323
-0-	-0-	-0-	400
-0-	-0-	4,719	52,915
-0-	-0-	-0-	8,200
-0-	636	-0-	19,377
2,861	1,735	597	17,670
-0-	1,226	5,430	25,117
-----	-----	-----	-----
\$165,844	\$ 64,285	\$ 10,746	\$ 495,002
\$ -0-	\$ -0-	\$ -0-	\$ 83,528
-0-	-0-	720	75,843
77,000	51,015	4,021	133,881
-0-	-0-	8,395	11,631
-0-	-0-	-0-	7,699
-0-	-0-	1,116	80,852
-----	-----	-----	-----
\$ 77,000	\$ 51,015	\$ 14,252	\$ 393,434
-----	-----	-----	-----
\$ 88,844	\$ 13,270	\$ (3,506)	\$ 101,568
\$ -0-	\$ -0-	\$ -0-	\$ 3,637
-0-	-0-	(3,637)	(3,637)
-----	-----	-----	-----
\$ -0-	\$ -0-	\$ (3,637)	\$ -0-
-----	-----	-----	-----
\$ 88,844	\$ 13,270	\$ (7,143)	\$ 101,568
107,035	60,358	19,912	424,650
-----	-----	-----	-----
\$195,879	\$ 73,628	\$ 12,769	\$ 526,218
=====	=====	=====	=====

SUGAR ISLAND TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended March 31, 2007

=====

Net change in Fund Balance - Governmental Funds	\$101,568
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	80,852
Depreciation expense	(43,862)
Governmental funds report capital asset sales as revenues. However, in the statement of activities, the gain on the sale adjusted for the undepreciated basis of the asset sold is reported. This is the amount that the cost of \$1,000 exceeded depreciation of \$274.	
	(726)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	----- \$137,832 =====

See accompanying notes to the financial statements.

SUGAR ISLAND TOWNSHIP  
 FIDUCIARY FUND  
 STATEMENT OF FIDUCIARY NET ASSETS

March 31, 2007

	EXPENDABLE TRUST MEMORIAL FUND	AGENCY FUND TYPE TAX COLLECTION FUND
=====		
ASSETS		
Cash and equivalents	\$1,209	\$ 444
	-----	-----
TOTAL ASSETS	\$1,209	\$ 444
	=====	=====
LIABILITIES		
Due to other fund - general	\$ -0-	\$ 444
	-----	-----
TOTAL LIABILITIES	\$ -0-	\$ 444
	-----	=====
NET ASSETS		
Held in trust for memorial fund	\$1,209	
	=====	

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP  
 FIDUCIARY FUND  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended March 31, 2007

	EXPENDABLE TRUST ----- MEMORIAL FUND
ADDITIONS	
Interest income	\$ 13
DEDUCTIONS	
Cemetery care	63
	-----
CHANGE IN NET ASSETS	\$ (50)
NET ASSETS HELD IN TRUST FOR MEMORIAL FUND	
Beginning of year	1,259
	-----
End of year	\$ 1,209
	=====

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

=====

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A - REPORTING ENTITY

Financial Reporting Entity

Sugar Island Township is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected five member board and provides services to its residents in many areas including fire and ambulance protection, community enrichment and development, public works, parks and recreation, and general administrative services.

The Township, for financial purposes, includes all funds relevant to the operations of Sugar Island Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Sugar Island Township.

B - 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Sugar Island Township has no business-type activities or separate component units.

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 or

SUGAR ISLAND TOWNSHIP

NOTE TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

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 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. Sugar Island Township has the general fund and special revenue funds for fire, ambulance, roads, solid waste, liquor law enforcement and community service.

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, 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable - Current Property Taxes

The Sugar Island Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Sugar Island Township as of the preceding December 31st.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

Although Sugar Island Township 2006 ad valorem tax is levied and collectible on December 1, 2006, it is Sugar Island Township's policy to recognize revenue from the current tax levy in the subsequent year or the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 taxable valuation of Sugar Island Township totaled \$30,375,555, on which ad valorem taxes levied consisted of 1.5149 mills for Township operating purposes, 1.3771 mills for fire protection, 1.5000 mills for ambulance service, 5.2954 mills for road maintenance/improvement and 1.9688 mills for solid waste.

The Township reports the following major governmental funds:

General Fund

This 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

This fund accounts for the millage revenue to support fire protection services in the Township.

Ambulance Fund

This fund accounts for the millage revenue to support ambulatory services in the Township.

Road Fund

This fund accounts for the millage revenue that maintain and improve roads within the Township.

Solid Waste Fund

This fund accounts for the millage revenue to support solid waste services in the Township.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

Additionally, the Township reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

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.

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 government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

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 twelve months or less when acquired. Deposits are recorded at cost.

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."

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

All trade and property tax receivables are shown as net of allowances for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - All inventories, including the cost of supplies, are expensed when purchased. Payments made to vendors for services that will benefit periods beyond March 31, 2007, are recorded as prepaid items.

Capital Assets - Capital assets, which include property, plant, equipment, 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 \$200 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.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Grants and Other Intergovernmental Revenue - Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

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

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

Budgets and Budgetary Control - The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Each March, the Township Board prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the Township Board level for the General Fund. Any revisions that alter the total expenditures of any fund (i.e., budget amendments) require approval by the Township Board. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General fund budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General and the major funds were modified throughout the year through various budget amendments.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the Township Board level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Agency and Fiduciary Funds
	-----	-----
Cash and Cash Equivalents -		
Restricted	\$ -0-	\$ -0-
Unrestricted	522,016	1,653
	-----	-----
Totals	\$522,016	\$ 1,653
	=====	=====

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
	-----	-----
Bank deposits - checking	\$ 1,469	\$ 444
Bank deposits - savings	520,447	1,209
Petty cash	100	-0-
	-----	-----
Totals	\$522,016	\$ 1,653
	=====	=====

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

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Statutory Authority:

Michigan Compiled Laws, Section 129.91 authorizes the township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency of instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States bank; 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 which are legal for direct investment by local units of government in Michigan.

The township has designated two banks for the deposit of township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized the aforementioned deposits and investments as listed above.

The township deposits and investment policy are in accordance with statutory authority.

At year end, the carrying amount of the Township's primary and fiduciary deposits was \$523,469 and the bank balance was \$517,215. Of the bank balance, \$203,437, was covered by federal depository insurance according to FDIC regulations. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Township. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

SUGAR ISLAND TOWNSHIP  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings and improvements	\$349,976	\$30,863	\$ -0-	\$380,839
Machinery and equipment	318,502	49,989	1,000	367,491
	-----	-----	-----	-----
Subtotal	\$668,478	\$80,852	\$ 1,000	\$748,330
	-----	-----	-----	-----
Less accumulated depreciation for:				
Buildings and improvements	\$125,236	\$ 9,431	\$ -0-	\$134,667
Machinery and equipment	202,234	34,431	274	236,391
	-----	-----	-----	-----
Subtotal	\$327,470	\$43,862	\$ 274	\$371,058
	-----	-----	-----	-----
Net Capital Assets Being Depreciated	\$341,008	\$36,990	\$ 726	\$377,272
Land	2,725	-0-	-0-	2,725
	-----	-----	-----	-----
Governmental Activity Capital Total				
Capital Assets-Net of Depreciation	\$343,733	\$36,990	\$ 726	\$379,997
	=====	=====	=====	=====

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

Governmental Activities:	
General Government	\$ 9,242
Public Safety	31,518
Public Works	3,102
	-----
Total Governmental Activities	\$ 43,862
	=====

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund receivable and payable balances at March 31, 2007 is as follows:

Interfund Receivable	Interfund Payable
-----	-----
General                    \$ 444	Tax Collection        \$ 444

There were no interfund transfers for the year ended March 31, 2007.

NOTE 6 - LEGAL COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act P.A. 2 of 1968 as amended (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Sugar Island Township's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets for Sugar Island Township for the budgeted funds were adopted to the activity level.

During the year, Sugar Island Township incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
General Government			
Supervisor	\$ 8,000	\$ 8,686	\$ 686
Clerk	8,200	8,645	445
Board of review	2,000	2,008	8
Recreation and cultural			
Parks	3,000	3,136	136
Other expenditures			
Employee benefits	2,600	2,625	25
Special Revenue Fund			
Fire Fund			
Capital outlay	22,000	51,832	29,832
Ambulance Fund			
Capital outlay	2,000	3,676	1,676

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

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NOTE 7 - DISTRIBUTION OF TAX COLLECTION

The Township must remit to the schools and the County total taxes collected through the 1st and 15th day of each month within 10 business days after the 1st and 15th day of each month. In addition, the Township is required to remit within ten business days, at least 90% of the total property tax collections on hand as of February 28 for tax revenues that were collected for other taxing units. During the year ended March 31, 2007, the Township remitted taxes to the schools and the County within the required time periods.

NOTE 8 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$18,188 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in the past three years. There was no reduction in coverage obtained through insurance during the past year.

SUGAR ISLAND TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2007

NOTE 9 - CONTINGENT LIABILITIES

The Township has received financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at March 31, 2007.

NOTE 10 - POSTEMPLOYMENT

Sugar Island Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of March 31, 2007.

NOTE 11 - COMPENSATED ABSENCES

The Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of March 31, 2007.

NOTE 12 - BUDGET AMENDMENT

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Authorized budget amendments were approved as follows:

FUND	AMOUNT
-----	-----
General Fund	
General Government	
Elections	\$ 400
Board of review	500
Public Safety	
Zoning	2,500
Public Works	
Roads	1,000
Other Expenditures	
Other	(4,400)
Capital Outlay	20,000
Special Revenue Fund	
Fire Fund	
Public safety	2,000

REQUIRED SUPPLEMENTAL INFORMATION

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the year ended March 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
<b>REVENUES</b>				
Taxes	\$ 60,303	\$ 60,303	\$ 59,084	\$ 1,219
Licenses and permits	-0-	-0-	400	(400)
State grants	47,000	47,000	47,021	(21)
Charges for services	10,000	10,000	9,662	338
Interest and rents	9,000	9,000	10,044	(1,044)
Other revenue	11,000	11,000	9,117	1,883
<b>TOTAL REVENUES</b>	<b>\$137,303</b>	<b>\$137,303</b>	<b>\$135,328</b>	<b>\$ 1,975</b>
<b>EXPENDITURES</b>				
<b>General Government</b>				
Township board	\$ 7,400	\$ 7,400	\$ 6,935	\$ 465
Supervisor	8,000	8,000	8,686	(686)
Clerk	8,200	8,200	8,645	(445)
Auditor	2,400	2,400	-0-	2,400
Board of Review	1,500	2,000	2,008	(8)
Treasurer	15,000	15,000	12,589	2,411
Assessor	17,000	17,000	13,572	3,428
Elections	2,000	2,400	2,344	56
Attorney	3,000	3,000	805	2,195
Building and grounds	33,000	33,000	27,944	5,056
<b>Total General Government</b>	<b>\$ 97,500</b>	<b>\$ 98,400</b>	<b>\$ 83,528</b>	<b>\$ 14,872</b>
<b>Public Safety</b>				
Ambulance	\$ 3,000	3,000	\$ 329	2,671
Planning, zoning and land division	7,500	10,000	6,695	3,305
<b>Total Public Safety</b>	<b>\$ 10,500</b>	<b>\$ 13,000</b>	<b>\$ 7,024</b>	<b>\$ 5,976</b>
<b>Public Works</b>				
Highways, streets and bridges	\$ 1,000	\$ 2,000	\$ 1,845	\$ 155
<b>Recreation and Cultural</b>				
Parks	\$ 3,000	\$ 3,000	\$ 3,136	\$ (136)
Library	100	100	100	-0-
<b>Total Recreation &amp; Cultural</b>	<b>\$ 3,100</b>	<b>\$ 3,100</b>	<b>\$ 3,236</b>	<b>\$ (136)</b>

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)

For the year ended March 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
EXPENDITURES (CONTINUED)				
Other Expenditures				
Insurance and bonds	\$ 7,200	\$ 7,200	\$ 5,074	\$ 2,126
Employee benefits	2,600	2,600	2,625	(25)
Other	8,000	3,600	-0-	3,600
Total Other Expenditures	\$ 17,800	\$ 13,400	\$ 7,699	\$ 5,701
Capital Outlay	\$ 10,000	\$ 30,000	\$ 24,228	\$ 5,772
TOTAL EXPENDITURES	\$139,900	\$159,900	\$127,560	\$ 32,340
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (2,597)	\$ (22,597)	\$ 7,768	\$ (30,365)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -0-	\$ -0-	\$ 3,637	\$ (3,637)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (2,597)	\$ (22,597)	\$ 11,405	\$ (34,002)
FUND BALANCE - APRIL 1, 2006	132,409	132,409	132,409	-0-
FUND BALANCE - MARCH 31, 2007	\$129,812	\$109,812	\$143,814	\$ (34,002)

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - FIRE FUND

For the year ended March 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
<b>REVENUES</b>				
Taxes	\$ 39,640	\$ 39,640	\$ 42,444	\$ (2,804)
State grants	2,000	2,000	1,175	825
Contributions from local units	4,500	4,500	4,600	(100)
Interest and rents	600	600	1,104	(504)
Other revenues	5,000	5,000	2,687	2,313
<b>TOTAL REVENUES</b>	<b>\$ 51,740</b>	<b>\$ 51,740</b>	<b>\$ 52,010</b>	<b>\$ (270)</b>
<b>EXPENDITURES</b>				
Public safety	\$ 41,500	\$ 41,500	\$ 21,591	\$ 19,909
Capital outlay	20,000	22,000	51,832	(29,832)
<b>TOTAL EXPENDITURES</b>	<b>\$ 61,500</b>	<b>\$ 63,500</b>	<b>\$ 73,423</b>	<b>\$ (9,923)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (9,760)</b>	<b>\$ (11,760)</b>	<b>\$ (21,413)</b>	<b>\$ (9,653)</b>
<b>FUND BALANCE - APRIL 1, 2006</b>	<b>66,979</b>	<b>66,979</b>	<b>66,979</b>	<b>-0-</b>
<b>FUND BALANCE - MARCH 31, 2007</b>	<b>\$ 57,219</b>	<b>\$ 55,219</b>	<b>\$ 45,566</b>	<b>\$ (9,653)</b>

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - AMBULANCE FUND

For the year ended March 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
<b>REVENUES</b>				
Taxes	\$ 42,518	\$ 42,518	\$ 46,124	\$ (3,606)
State grants	400	400	-0-	400
Contributions from local units	4,000	4,000	3,600	400
Charges for services	4,700	4,700	9,079	(4,379)
Interest and rents	700	700	1,329	(629)
Other revenues	4,500	4,500	6,657	(2,157)
	-----	-----	-----	-----
TOTAL REVENUES	\$ 56,818	\$ 56,818	\$ 66,789	\$ (9,971)
<b>EXPENDITURES</b>				
Public safety	\$ 50,525	\$ 50,525	\$ 46,508	\$ 4,017
Capital outlay	2,000	2,000	3,676	(1,676)
	-----	-----	-----	-----
TOTAL EXPENDITURES	\$ 52,525	\$ 52,525	\$ 50,184	\$ 2,341
	-----	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 4,293	\$ 4,293	\$ 16,605	\$ (12,312)
FUND BALANCE - APRIL 1, 2006	37,957	37,957	37,957	-0-
	-----	-----	-----	-----
FUND BALANCE - MARCH 31, 2007	\$ 42,250	\$ 42,250	\$ 54,562	\$ (12,312)
	=====	=====	=====	=====

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - ROAD FUND

For the year ended March 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Taxes	\$151,088	\$151,088	\$162,983	\$(11,895)
Interest and rents	1,500	1,500	2,861	(1,361)
TOTAL REVENUES	\$152,588	\$152,588	\$165,844	\$(13,256)
EXPENDITURES				
Public Works				
Highway, streets and bridges	\$114,989	\$114,989	\$ 77,000	\$ 37,989
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 37,599	\$ 37,599	\$ 88,844	\$(51,245)
FUND BALANCE - APRIL 1, 2006	107,035	107,035	107,035	-0-
FUND BALANCE - MARCH 31, 2007	\$144,634	\$144,634	\$195,879	\$(51,245)

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SOLID WASTE FUND

For the year ended March 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
<b>REVENUES</b>				
Taxes	\$ 56,688	\$ 56,688	\$ 60,688	\$ (4,000)
Charges for services	200	200	636	(436)
Interest and rents	350	350	1,735	(1,385)
Other revenue	500	500	1,226	(726)
TOTAL REVENUES	\$ 57,738	\$ 57,738	\$ 64,285	\$ (6,547)
<b>EXPENDITURES</b>				
Public works	\$ 53,250	\$ 53,250	\$ 51,015	\$ 2,235
Capital outlay	1,000	1,000	-0-	1,000
TOTAL EXPENDITURES	\$ 54,250	\$ 54,250	\$ 51,015	\$ 3,235
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 3,488	\$ 3,488	\$ 13,270	\$ (9,782)
FUND BALANCE - APRIL 1, 2006	60,358	60,358	60,358	-0-
FUND BALANCE - MARCH 31, 2007	\$ 63,846	\$ 63,846	\$ 73,628	\$ (9,782)

See accompanying notes to financial statements.

SUGAR ISLAND TOWNSHIP  
NON-MAJOR FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - OTHER GOVERNMENTAL FUNDS

For the year ended March 31, 2007

	FINN HALL FUND	COMMUNITY SERVICES BOARD	LIQUOR FUND	METRO ACT FUND	TOTAL (MEMORANDUM ONLY)
REVENUES					
State grants	\$ -0-	\$ -0-	\$ 763	\$ 3,956	\$ 4,719
Interest and rents	54	363	34	146	597
Other revenue	-0-	5,430	-0-	-0-	5,430
<b>TOTAL REVENUES</b>	<b>\$ 54</b>	<b>\$ 5,793</b>	<b>\$ 797</b>	<b>\$ 4,102</b>	<b>\$ 10,746</b>
EXPENDITURES					
Public safety	\$ -0-	\$ -0-	\$ 720	\$ -0-	\$ 720
Public works	-0-	-0-	-0-	4,021	4,021
Recreation and cultural	709	7,686	-0-	-0-	8,395
Capital outlay	-0-	-0-	-0-	1,116	1,116
<b>TOTAL EXPENDITURES</b>	<b>\$ 709</b>	<b>\$ 7,686</b>	<b>\$ 720</b>	<b>\$ 5,137</b>	<b>\$ 14,252</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (655)	\$ (1,893)	\$ 77	\$ (1,035)	\$ (3,506)
OTHER FINANCING SOURCES (USES)					
Transfers out	\$ (3,637)	\$ -0-	\$ -0-	\$ -0-	\$ (3,637)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (4,292)	\$ (1,893)	\$ 77	\$ (1,035)	\$ (7,143)
FUND BALANCES - APRIL 1, 2006	4,292	11,619	827	3,174	19,912
FUND BALANCES - MARCH 31, 2007	\$ -0-	\$ 9,726	\$ 904	\$ 2,139	\$ 12,769

See accompanying notes to financial statements.



## GILLETT, HALVORSEN & LEONHARDT, P.C.

Certified Public Accountants

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MEMBER OF THE MICHIGAN  
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF THE AMERICAN  
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board  
Sugar Island Township  
Sault Ste. Marie, MI 49783

We have audited the financial statements of Sugar Island Township for the year ended March 31, 2007, and have issued our report thereon dated August 17, 2007. Professional standards require that we provide you with the following information related to our audit.

### AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated July 1, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

### SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sugar Island Township are described in Note 1 to the financial statements.

During the year ended March 31, 2007, the Township did not initiate or change any of their significant accounting policies.

### ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly based on reviewing and testing the historical data provided by management and using this data to compute the liability.

#### AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, do not indicate matters that could have a significant effect on the Township's financial process.

#### DISAGREEMENT WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### CONSULTATION WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultation with other accountants.

#### ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sugar Island Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

#### COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS

As part of our audit, we considered the internal control of Sugar Island Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we do not express an opinion on the system of internal control structure of Sugar Island Township taken as a whole. However, our procedures disclosed the following conditions that we would like to bring to your attention.

## BUDGET

During the current year, expenditures exceeded the amount appropriated in seven instances. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended, which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend that budget categories should not be over expended and that the budget be monitored and amended as necessary during the year.

## CASH AND INVESTMENTS

At year end, the Township had \$313,778 in deposits with financial institutions that were uninsured by federal depository insurance. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. We recommend that the Township insure all funds.

## SEGREGATION OF DUTIES

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with a few employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

## ACCRUAL BASIS OF ACCOUNTING

The Township needs to incorporate the modified accrual basis of accounting into its interim financial statements. The adjustments were made to attain the modified accrual basis of accounting.

This report is intended solely for the information and use of the Township Board.

*Gillett Halvorsen & Leonhardt PC*

Gillett, Halvorsen & Leonhardt, P.C.  
Certified Public Accountants

August 17, 2007  
Sault Ste. Marie, Michigan