

**WAWATAM TOWNSHIP  
EMMET COUNTY, MICHIGAN**

Financial Statements  
For the Year Ended  
March 31, 2007

**Prepared By:**  
Richard E. Mahlmeister, C.P.A., P.C.  
580 South Nicolet, P.O.Box 996  
Mackinaw City, MI 49701

### 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 Wawatam Township	County Emmet
Fiscal Year End March 31, 2007	Opinion Date August 28, 2007	Date Audit Report Submitted to State August 31, 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).

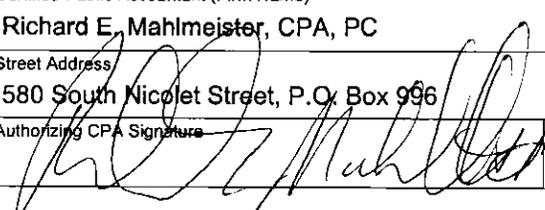
YES NO

**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) Richard E. Mahlmeister, CPA, PC		Telephone Number 231-436-5223		
Street Address 580 South Nicolet Street, P.O. Box 996		City Mackinaw City	State MI	Zip 49701
Authorizing CPA Signature 		Printed Name Richard E. Mahlmeister, CPA		License Number 17351

**WAWATAM TOWNSHIP**

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INDEPENDENT AUDITOR'S REPORT

August 28, 2007

Township Board  
Wawatam Township  
Emmet County, Michigan

I have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of *Wawatam Township, Emmet County, Michigan*, as of and for the year ended March 31, 2007, which collectively comprise *Wawatam Township's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of *Wawatam Township's* management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of *Wawatam Township, Emmet County, Michigan*, as of March 31, 2007, and the respective changes in financial position, thereof and 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 budgetary comparison information on pages 1 through 5 and 21 through 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.



Richard E. Mahlmeister, C.P.A.

**WAWATAM TOWNSHIP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2007. Please read it in conjunction with the financial statements, which immediately follow this section.

**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. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

**FINANCIAL HIGHLIGHTS**

Assets at March 31, 2007 totaled \$195,022 for governmental activities. Of the total, \$8,476 represents capital assets, net of depreciation.

Revenues derived from governmental activities were \$169,724; all from general revenues. Overall expenses for the Township's governmental activities were \$143,117.

Capital assets in the amount of \$5,206 were acquired during the fiscal year and the Township does not have any long-term debt. Capital asset and debt activity is addressed further in a subsequent section of this letter.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year March 31, 2007.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

**WAWATAM TOWNSHIP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two Government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Township, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities are reported as governmental activities. These would include the operations recorded in the General Fund and the Liquor Law Enforcement Fund.

The comparison of net assets of governmental activities from year to year serves to measure a government's financial position:

<b>Wawatam Township</b>		
<b>Net Assets</b>		
<b>March 31,</b>		
<b>GOVERNMENTAL</b>		
<b>ACTIVITIES</b>		
	<b>2007</b>	<b>2006</b>
<b>Assets:</b>		
Current assets	\$186,546	\$163,518
Capital assets (net)	8,476	4,897
Total assets	<u>\$195,022</u>	<u>\$168,415</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	\$8,476	\$4,897
Unrestricted	<u>186,546</u>	<u>163,518</u>
	<u>\$195,022</u>	<u>\$168,415</u>

The most significant portion of the Township's net assets is cash and certificates of deposit. The Township has \$186,546 in unrestricted net assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

(Continued)

**WAWATAM TOWNSHIP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The following table summarizes the results of the changes in net assets of the Township:

	<b>Wawatam Township Change in Net Assets March 31,</b>	
	<b>GOVERNMENTAL ACTIVITIES</b>	
	<b>2007</b>	<b>2006</b>
<b>REVENUES:</b>		
General revenues:		
Property taxes	\$146,795	\$136,915
State-shared revenues	17,313	17,289
Interest income	4,207	2,341
Other	1,409	1,122
Total Revenues	<u>\$169,724</u>	<u>\$157,667</u>
<b>EXPENSES:</b>		
Legislative	\$2,649	\$3,304
General government	66,546	54,975
Public safety	17,125	16,287
Public works	49,599	10,198
Recreation and culture	7,198	6,920
Total Expenses	<u>\$143,117</u>	<u>\$91,684</u>
<b>NET ASSETS:</b>		
Increase in net assets	\$26,607	\$65,983
Beginning Net Assets	168,415	102,432
Ending Net Assets	<u>\$195,022</u>	<u>\$168,415</u>

The Township is able to report positive balances in net assets. Net assets increased by \$26,607. Property taxes have increased, due mainly to rising property values. Expenses have increased, primarily due to road projects undertaken during the current year. Road projects are being paid for from an additional voted mill that was collected for the second time this year. The voters approved this additional mill for four years and its use has been designated by the Township Board for road repairs.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board may also create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

## **WAWATAM TOWNSHIP**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **FUND FINANCIAL STATEMENTS (CONTINUED)**

The Township has the following types of funds:

##### **Governmental Funds**

Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Township maintains two individual governmental funds; General Fund and Liquor Law Enforcement Fund; of which the General Fund is considered a major fund. The Township funds are financed primarily by both property tax revenue and state shared revenues.

##### **Fiduciary Funds**

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belongs. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

#### **FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

##### **Governmental Activities**

The General Fund had an increase in fund balance, primarily due to increases in taxable value and interest rates, even though the Township has undertaken various road projects. The Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, fire and police protection and tax collection. The General Fund increased its fund balance by \$23,044, bringing the fund balance to \$186,269.

##### **Capital Asset and Debt Administration**

###### **Capital Assets**

At March 31, 2007, the Township had \$50,288 in capital assets, which includes the township hall and office equipment. Improvements to the township hall in the amount of \$5,206 were made during the year.

###### **Long-Term Debt**

No new debt was incurred during the year, nor is there any other long-term debt.

**WAWATAM TOWNSHIP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**BUDGETARY HIGHLIGHTS**

Overall there are no significant differences between the original and actual budget. We did spend less on road improvements that we planned on doing.

**KNOWN FACTORS AFFECTING FUTURE OPERATIONS**

The Township expects financial aspects of governing to be generally the same as in the current year. However, one area of continuing potential revenue reduction is in state-shared revenues. These monies come from the State of Michigan and are contingent on various economic and political considerations. We also plan on using the additional millage levied to continue improving various county roads within the Township, including paving of Straits View Drive for approximately \$77,600.

We believe that we need to continue to strive for a healthy fund balance.

**CONTACTING TOWNSHIP MANAGEMENT**

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact any township official at 231.436.5274 (Wawatam Township Hall).



Roger W. Moore  
Wawatam Township Supervisor



Florence A. Tracy  
Wawatam Township Clerk



Elaine L. Desy  
Wawatam Township Treasurer

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**WAWATAM TOWNSHIP  
STATEMENT OF NET ASSETS  
MARCH 31, 2007**

<b>ASSETS</b>	<b>GOVERNMENTAL ACTIVITIES</b>
Cash and cash equivalents	\$131,096
Investments	40,498
Taxes receivable	13,598
Due from fiduciary fund	1,354
Capital assets (net of accumulated depreciation)	8,476
<b>TOTAL ASSETS</b>	<b>\$195,022</b>
<b>NET ASSETS</b>	
Invested in capital assets	\$8,476
Unrestricted	186,546
<b>TOTAL NET ASSETS</b>	<b>\$195,022</b>

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

**WAWATAM TOWNSHIP  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2007**

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
<b>Primary government</b>			
<b>Governmental activities</b>			
Legislative	\$2,649	\$ -	\$ -
General government	66,546	-	-
Public safety	17,125	-	-
Public works	49,599	-	-
Recreation and culture	7,198	-	-
<b>Total governmental activities</b>	<b>143,117</b>	-	-
		<b>General Revenues</b>	
		Property taxes	
		State-shared revenues	
		Unrestricted interest income	
		Other	
		<b>Total general revenues</b>	
		<b>Change in net assets</b>	
		<b>Net assets, beginning of year</b>	
		<b>Net assets, end of year</b>	

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

**Net (Expense)**  
**Revenue and Changes**  
**in Net Assets**  
**Governmental**  
**Activities**

Capital Grants and Contributions	TOTAL
\$ -	(\$2,649)
-	(66,546)
-	(17,125)
-	(49,599)
-	(7,198)
-	(143,117)
	146,795
	17,313
	4,207
	1,409
	169,724
	26,607
	168,415
	<u>\$195,022</u>

**FUND FINANCIAL STATEMENTS**

**WAWATAM TOWNSHIP  
BALANCE SHEET - GOVERNMENTAL FUNDS  
MARCH 31, 2007**

<b>ASSETS</b>	<b>GENERAL FUND</b>	<b>NON-MAJOR FUND LIQUOR LAW ENFORCEMENT FUND</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>
Cash and cash equivalents	\$130,819	\$277	\$131,096
Investments	40,498	-	40,498
Taxes receivable	13,598	-	13,598
Due from tax collection fund	1,354	-	1,354
<b>TOTAL ASSETS</b>	<b>\$186,269</b>	<b>\$277</b>	<b>\$186,546</b>
 <b>FUND BALANCES</b>			
<b>Unreserved:</b>			
<b>Designated For:</b>			
Subsequent years' expenditures	\$17,889	\$ -	\$17,889
Road improvements	77,651	-	77,651
Building improvements	20,325	-	20,325
Unreserved, undesignated	70,404	277	70,681
<b>TOTAL FUND BALANCES</b>	<b>\$186,269</b>	<b>\$277</b>	<b>\$186,546</b>

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

**WAWATAM TOWNSHIP  
BALANCE SHEET - GOVERNMENTAL FUNDS  
MARCH 31, 2007**

Reconciliation of fund balances on the balance sheets for governmental activities  
to the statement of net assets

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$186,546

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

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

Add: capital assets	50,288
Subtract: accumulated depreciation	<u>(41,812)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$195,022

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

**WAWATAM TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	GENERAL FUND	NON-MAJOR FUND LIQUOR LAW ENFORCEMENT FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>			
Taxes	\$146,795	\$ -	\$146,795
State shared revenues	16,736	577	17,313
Interest	4,207	-	4,207
Other	1,409	-	1,409
<b>TOTAL REVENUES</b>	<b>169,147</b>	<b>577</b>	<b>169,724</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Legislative	2,649	-	2,649
General government	64,919	-	64,919
Public safety	16,532	593	17,125
Public works	49,599	-	49,599
Recreation and culture	7,198	-	7,198
Capital outlay	5,206	-	5,206
<b>TOTAL EXPENDITURES</b>	<b>146,103</b>	<b>593</b>	<b>146,696</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>23,044</b>	<b>(16)</b>	<b>23,028</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>163,225</b>	<b>293</b>	<b>163,518</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$186,269</b>	<b>\$277</b>	<b>\$186,546</b>

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

**WAWATAM TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$23,028

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

Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities.

Add: capital outlay capitalized during the current year	5,206
Subtract: depreciation expense	<u>(1,627)</u>

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$26,607

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

**WAWATAM TOWNSHIP  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
MARCH 31, 2007**

<b>ASSETS</b>	<b>AGENCY FUND</b>
<b>Cash</b>	<u><u>\$1,354</u></u>
<b>LIABILITIES</b>	
<b>Due to other funds</b>	<u><u>1,354</u></u>
<b>NET ASSETS</b>	
<b>Fiduciary Net Assets</b>	<u><u>\$ -</u></u>

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

## **WAWATAM TOWNSHIP**

### **NOTES TO FINANCIAL STATEMENTS**

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

The accounting policies of Wawatam Township, Emmet County, Michigan conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the most significant policies.

#### **THE REPORTING ENTITY**

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Township has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

#### **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

##### ***Government-Wide Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund 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.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment 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 that are not properly included among program revenues are reported instead as general revenue.

**WAWATAM TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Fund Financial Statements***

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 and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

**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 revenues in the year 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 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 are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when the government receives cash.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989.

**WAWATAM TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major fund:

**General Fund** - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

The Township reports the following special revenue - nonmajor fund:

**Liquor Law Enforcement Fund** - The Liquor Law Enforcement Fund accounts for liquor license fees refunded by the State and utilization for enforcement of the State's liquor laws.

***Fiduciary Funds***

**Trust and Agency Fund** - The Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

**INVESTMENTS**

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

**INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are reported at their gross values. Interfund transfers reflect the use of unrestricted revenues collected in the General Fund used to finance programs accounted for in other funds in accordance with budgetary provisions.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

**WAWATAM TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**  
**COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS**

There is no accumulated vacation, sick leave or post-employment benefits to be recognized.

**CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$2,000 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. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	15 – 40 years
Furniture and equipment	5 – 10 years

**LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures. The Township has no long-term obligations as of March 31, 2007.

**FUND EQUITY**

Reserved fund balances for governmental funds indicate that portion of fund equity, which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

**WAWATAM TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**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. The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Township Board.

The Township Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

**Excess of Expenditures Over Appropriations in Budgetary Funds**

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, The Township's actual expenditures and budgeted expenditures for the government fund is shown on a functional basis. The approved budgets of the Township were adopted to the activity level. The Township incurred expenditures, which exceeded the amount appropriated as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
<b>General:</b>			
Clerk	\$9,540	\$9,834	\$294
Treasurer	\$18,836	\$18,975	\$139
<b>Liquor Law Enforcement</b>	\$578	\$593	\$15

**NOTE 3: PROPERTY TAX**

Property tax revenues for the year ended March 31, 2007, reflected in the accompanying financial statements include property taxes levied December 31, 2006. These taxes are due by February 15, 2007, and are added to the County tax rolls after February 28, 2007. The Township will receive 100% payment for the delinquent tax by June, 2007.

The taxable value of the Township totaled \$55,849,698, on which ad valorem taxes consisted of 1.9942 mills for the Township's operating purposes and .2692 mills for emergency services, raising \$111,664 for operating purposes and \$15,112 for emergency services.

**WAWATAM TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4: CASH AND CASH EQUIVALENTS**

The caption on the statements of net assets relating to cash and cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	\$132,450
Investments (certificates of deposit)	40,498
	<hr/>
	\$172,948
	<hr/> <hr/>

**Custodial Credit Risk – Deposits**

At year-end the carrying amounts of cash and cash equivalents were classified as to risk as follows:

	<b><u>Carrying Amount</u></b>	<b><u>Bank Balance</u></b>
Insured (FDIC)	\$115,311	\$119,941
Uninsured – uncollateralized	57,637	57,637
	<hr/>	<hr/>
	\$172,948	\$177,578
	<hr/> <hr/>	<hr/> <hr/>

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 Township funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated level are used as depositories. The Township may experience significant fluctuations in deposit balances through the year.

**Statutory Authority**

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's investment policy is in accordance with statutory authority.

**WAWATAM TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5: INTERFUND BALANCES AND TRANSFERS**

The composition of interfund receivables and payables for the year ended March 31, 2007 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$1,354	\$ -
Tax Collection	-	1,354
Total	<u>\$1,354</u>	<u>\$1,354</u>

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

**NOTE 6: CAPITAL ASSETS**

Capital asset activity of the governmental activities for the current year was as follows:

	<u>Balance April 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2007</u>
<u>Not being depreciated:</u>				
Land	\$ 2,501	\$ -	\$ -	\$ 2,501
<u>Being Depreciated:</u>				
Building and Improvements	34,659	5,206	-	39,865
Furniture and Equipment	<u>7,922</u>	<u>-</u>	<u>-</u>	<u>7,922</u>
Subtotal	45,082	5,206	-	50,288
Less accumulated depreciation	<u>(40,185)</u>	<u>(1,627)</u>	<u>-</u>	<u>(41,812)</u>
Total	<u>\$4,897</u>	<u>\$3,579</u>	<u>\$ -</u>	<u>\$8,476</u>

Depreciation was charged to the Township's functions as follows:

General government	<u>\$1,627</u>
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**WAWATAM TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7: ACT 425 AGREEMENT**

The Township entered into a Public Act 425 Agreement with the Village of Mackinaw City. Under the terms of the agreement the Township conditionally transferred an economic development project to the Village. The Village will provide sewer service to the project area. In exchange for the transfer, the Village will share with the Township the revenue generated from one mill on the assessed valuation of the project parcel during the period of the agreement. For the year ended March 31, 2007, the Township received \$2,307 in shared tax revenues

**NOTE 8: RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, suits, complaints and employee injuries. In the opinion of management, all such potential matters are adequately covered by insurance and would not have a significant effect on the financial position or results of operations of the Township. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**NOTE 9: COMMITMENTS**

The Township has entered into a contract for paving of a county road within the Township in the amount of approximately \$77,600.

**REQUIRED SUPPLEMENTARY INFORMATION**

**WAWATAM TOWNSHIP  
BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2007**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
<b>Taxes:</b>				
Property tax	\$126,895	\$126,895	\$129,083	\$2,188
Property taxes - administrative fee	15,000	15,000	17,712	2,712
<b>Total taxes</b>	<b>141,895</b>	<b>141,895</b>	<b>146,795</b>	<b>4,900</b>
<b>State shared revenues:</b>				
State shared revenues	11,000	11,000	11,258	258
State shared revenues-METRO Act	-	-	871	871
Swampland tax	4,607	4,607	4,607	-
<b>Total state shared revenues</b>	<b>15,607</b>	<b>15,607</b>	<b>16,736</b>	<b>1,129</b>
<b>Interest</b>	<b>1,500</b>	<b>1,500</b>	<b>4,207</b>	<b>2,707</b>
<b>Other revenue</b>	<b>1,812</b>	<b>1,812</b>	<b>1,409</b>	<b>(403)</b>
<b>TOTAL REVENUES</b>	<b>160,814</b>	<b>160,814</b>	<b>169,147</b>	<b>8,333</b>

**WAWATAM TOWNSHIP  
BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2007**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
<b>LEGISLATIVE</b>				
Township board	\$3,359	\$3,359	\$2,649	\$710
<b>GENERAL GOVERNMENT</b>				
Supervisor	21,748	21,748	21,052	696
Elections	3,600	3,600	1,571	2,029
Professional services	5,500	7,256	7,123	133
Board of review	1,950	1,950	1,524	426
Clerk	9,040	9,540	9,834	(294)
Treasurer	19,336	18,836	18,975	(139)
Township property	10,800	7,359	4,840	2,519
<b>TOTAL GENERAL GOVERNMENT</b>	<b>71,974</b>	<b>70,289</b>	<b>64,919</b>	<b>5,370</b>
<b>PUBLIC SAFETY</b>				
Fire and police	16,500	16,532	16,532	-
<b>PUBLIC WORKS</b>				
Highways and streets	51,500	51,500	48,528	2,972
Sanitation	1,500	1,500	1,071	429
<b>TOTAL PUBLIC WORKS</b>	<b>53,000</b>	<b>53,000</b>	<b>49,599</b>	<b>3,401</b>
<b>RECREATION AND CULTURE</b>				
Library	6,500	6,500	6,198	302
Parks	1,000	1,000	1,000	-
<b>TOTAL RECREATION AND CULTURE</b>	<b>7,500</b>	<b>7,500</b>	<b>7,198</b>	<b>302</b>
<b>OTHER FUNCTIONS</b>				
Contingencies and other	16,480	16,928	-	16,928
<b>CAPITAL OUTLAY</b>	5,000	6,205	5,206	999
<b>TOTAL EXPENDITURES</b>	<b>173,813</b>	<b>173,813</b>	<b>146,103</b>	<b>27,710</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(12,999)</b>	<b>(12,999)</b>	<b>23,044</b>	<b>36,043</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>163,225</b>	<b>163,225</b>	<b>163,225</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$150,226</b>	<b>\$150,226</b>	<b>\$186,269</b>	<b>\$36,043</b>

August 28, 2007

Township Board  
Wawatam Township  
Emmet County, Michigan

In planning and performing my audit of the financial statements of *Wawatam Township* as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered *Wawatam Township's* internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Wawatam Township's* internal control. My consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, I do not express an opinion on the effectiveness of *Wawatam Township's* internal control.

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

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.

Of the following significant deficiencies, Financial Statement Presentation is considered a material weakness.

**Lack of Segregation of Duties**

Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

This condition is generally inherent in organizations the size of *Wawatam Township*, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.

**Budgeting**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2007 *Wawatam Township* incurred expenditures, which exceeded the amount appropriated for General Fund – Clerk and Treasurer expenditures, and Liquor Law Enforcement Fund - Public Safety expenditures, as shown in the body of the financial statements.

Though the Board is reviewing the budget as compared to expenditures, I suggest that the Township Board on a periodic basis, closely review appropriations as compared to actual expenditures and amend the budget as necessary, prior to incurring the expenditures to avoid incurring expenditures in excess of appropriations.

**Financial Statement Preparation**

The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

This communication is intended solely for the information and use of management, the Members of the Board of *Wawatam Township*, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to serve *Wawatam Township*. Best wishes in the next year.

Sincerely,



Richard E. Mahlmeister, C.P.A.  
Richard E. Mahlmeister, C.P.A., P.C.