

**Charter Township of Clayton
Genesee County, Michigan**

**Financial Report
with Supplemental Information
December 31, 2007**

Charter Township of Clayton

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Clayton
Genesee County, Michigan

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Clayton, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

To the Township Board of Trustees
Charter Township of Clayton
Genesee County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Township Clayton's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

June 24, 2008

Charter Township of Clayton

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Clayton's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2007:

- The Township's Total Net Assets are \$6.65 million. Unrestricted Net Assets were \$2.46 million.
- During the year, the Township's governmental expenditures were \$22,437 less than the \$1,827,458 generated in taxes and other revenues for governmental programs.
- General fund revenues exceeded expenditures and transfers out to other funds by \$46,900.

Using this Annual Report

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

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

Charter Township of Clayton

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years (in thousands of dollars):

	2005	2006	2007	Change from Prior Year	
				in Dollars	as a Percent
Capital assets, net	\$ 496,893	\$ 486,894	\$ 456,942	\$ (29,952)	-6.15%
Other assets	1,917,684	2,039,928	2,097,792	57,864	2.84%
Total assets	<u>2,414,577</u>	<u>2,526,822</u>	<u>2,554,734</u>	<u>27,912</u>	1.10%
Long term liabilities	51,263	-	-	-	0.00%
Other liabilities	941,257	939,869	945,314	5,445	0.58%
Total liabilities	<u>992,520</u>	<u>939,869</u>	<u>945,314</u>	<u>5,445</u>	0.58%
Net assets:					
Invested in capital assets, net of related debt	496,893	486,924	456,942	(29,982)	-6.16%
Restricted	43,250	39,889	41,313	1,424	3.57%
Unrestricted	933,177	1,060,170	1,111,165	50,995	4.81%
Total net assets	<u>\$ 1,473,320</u>	<u>\$ 1,586,983</u>	<u>\$ 1,609,420</u>	<u>\$ 22,437</u>	1.41%
Revenue					
Program revenue:					
Charges for services	\$ 663,887	\$ 790,808	\$ 746,224	\$ (44,584)	-5.64%
Operating grants and contributions	43,326	1,769	25,849	24,080	1361.22%
General revenue:					
Property taxes	419,592	365,164	460,208	95,044	26.03%
State-shared revenue	510,250	509,414	513,663	4,249	0.83%
Investment earnings	44,200	68,932	81,514	12,582	18.25%
Other	55,857	139,677	-	(139,677)	-100.00%
Total revenue	<u>1,737,112</u>	<u>1,875,764</u>	<u>1,827,458</u>	<u>(48,306)</u>	-2.58%
Program Expenses					
General government	454,446	513,433	467,968	(45,465)	-8.86%
Public safety	655,059	799,762	841,262	41,500	5.19%
Public services	179,426	134,453	146,138	11,685	8.69%
Community development	2,269	1,769	24,049	22,280	1259.47%
Sanitation	299,578	312,684	325,604	12,920	4.13%
Total program expenses	<u>1,590,778</u>	<u>1,762,101</u>	<u>1,805,021</u>	<u>42,920</u>	2.44%
Excess (deficiency of revenue over expenses)	<u>146,334</u>	<u>113,663</u>	<u>22,437</u>	<u>(91,226)</u>	-80.26%
Change in Net Assets	<u>\$ 146,334</u>	<u>\$ 113,663</u>	<u>\$ 22,437</u>	<u>\$ (91,226)</u>	-80.26%

Charter Township of Clayton

Management's Discussion and Analysis (Continued)

The governmental net assets increased 1.41 percent from a year ago - increasing from \$1.59 million to \$1.61 million. In contrast, last year's net assets increased by 7.7 percent.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$50,995 for the governmental activities. This represents an increase of approximately 4.81 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,111,165, or about 62 percent of expenses. This compares to 60% for 2006.

The Township's total governmental revenues decreased by approximately \$48,000. The decrease, which represents 2.58 percent, was primarily due decreases in building permits and ordinance fees and other unrestricted revenue.

Expenses increased by only about \$43,000 or 2.4% during the year. Increases were led by large increases in health care costs. To offset this, the Township closely monitored its spending in all other areas, including hiring of new employees.

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years (in thousands of dollars):

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Change from prior year</u> <u>in Dollars</u>	<u>as a</u> <u>Percent</u>
Capital assets, net	\$ 3,428,606	\$ 5,438,630	\$ 5,387,007	\$ (51,623)	-0.95%
Other assets	1,229,929	1,731,039	1,777,298	46,259	2.67%
Total assets	<u>4,658,535</u>	<u>7,169,669</u>	<u>7,164,305</u>	<u>(5,364)</u>	-0.07%
Long term liabilities	-	1,696,133	1,641,265	(54,868)	-3.23%
Other liabilities	152,418	483,365	484,566	1,201	0.25%
Total liabilities	<u>152,418</u>	<u>2,179,498</u>	<u>2,125,831</u>	<u>(53,667)</u>	-2.46%
Net assets:					
Invested in capital assets, net of related debt	3,428,606	3,690,015	3,690,874	859	0.02%
Unrestricted	1,077,511	1,300,156	1,347,600	47,444	3.65%
Total net assets	<u>\$ 4,506,117</u>	<u>\$ 4,990,171</u>	<u>\$ 5,038,474</u>	<u>\$ 48,303</u>	0.97%

Charter Township of Clayton

Management's Discussion and Analysis (Continued)

	2005	2006	2007	Change from prior year	
				in Dollars	as a Percent
General revenue:					
Charges for services	\$ 874,062	\$ 763,352	\$ 686,415	\$ (76,937)	-10.08%
Capital grants and donations	835,747	383,115	67,308	(315,807)	-82.43%
Investment earnings	32,516	51,597	63,581	11,984	23.23%
Total revenue	<u>1,742,325</u>	<u>1,198,064</u>	<u>817,304</u>	<u>(380,760)</u>	<u>-31.78%</u>
Program expenses:					
Water and sewer	<u>716,372</u>	<u>714,010</u>	<u>769,001</u>	<u>54,991</u>	<u>7.70%</u>
Total expenses	<u>716,372</u>	<u>714,010</u>	<u>769,001</u>	<u>54,991</u>	<u>7.70%</u>
Change in Net Assets	<u>\$ 1,025,953</u>	<u>\$ 484,054</u>	<u>\$ 48,303</u>	<u>\$ (435,751)</u>	<u>-90%</u>

The Township's business-type activities consist of a combined Water and Sewer Fund. We provide water and sewer services from the Genesee County Drain Commission.

The net assets of business type activities increased 1 percent from a year ago - increasing from \$4.99 million to \$5.0 million. In contrast, last year's net assets increased by 10.7 percent due to the capitalization of a developer funded system expansion.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$47,000. This represents an increase of approximately 3.65 percent. The current level of unrestricted (and non capital) net assets stands at \$1.35 million, or about 175.2 percent of annual expenses.

The Township's Funds

Our analysis of the Township's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2007 include the General Fund, the Police Fund, and the Sanitation Fund.

The General Fund pays for most of the Township's governmental services and provides a subsidy to the Police Special Revenue Fund. The most significant service is police protection, which incurred expenses of approximately \$477,000 in 2007. This represents an increase over 2006 of approximately \$51,000 or 12%. Police services are partially supported by a special Public Safety millage, which is recorded in the Police Fund as property taxes. During the current year, this amounted to approximately \$222,966. The remaining costs of approximately \$254,000 are funded by other general revenue sources of the General Fund and ordinance fees.

Charter Township of Clayton

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. Township departments overall stayed below budget, resulting in total expenditures \$35,850 below budget. This allowed the General Fund's fund balance to increase from \$1,052,534 a year ago to \$1,099,434 at December 31, 2007. This fund balance represents 13 months of operating expenditures.

Capital Asset and Debt Administration

At the end of 2007, the Township had \$5,843,949 invested in a broad range of capital assets, including buildings, police equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Genesee County Road Commission (along with the responsibility to maintain them).

Long-term Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. Our legal debt limit is \$2.5 million. As of December 31, 2007 the Township did not have any outstanding general obligation debt related to governmental activities. The Township's sewer debt is exempt from consideration in the 10% limit computation.

At the end of the current fiscal year, the Township had total notes payable of \$1,696,133 related to an agreement with Genesee County for the Western Trunk Extension of the County's sanitary sewage disposal system. The note payable is backed by the full faith and credit of the Township.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the consistency of our tax base and Township's effort to keep expenses under control. Because of the impact of Proposal A, however, 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 inflation or 5 percent. 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.

Regarding the Water and Sewer Fund the number of new tap-ins declined in 2007 due to the tough economy, however, the amount of investment income helped to offset a net cash loss from operations and net capital activities. We are continually monitoring the Fund's health for the potential need to change user rates.

Charter Township of Clayton

Management's Discussion and Analysis (Continued)

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township's Finance Administrator, 2011 South Morrish Road, Swartz Creek, MI 48473.

Charter Township of Clayton

Statement of Net Assets December 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and equivalents	\$ 1,541,791	\$ 1,476,066	\$ 3,017,857
Investments	-	-	-
Receivables			
Property taxes	230,632	-	230,632
Accounts	174,696	282,212	456,908
Accrued interest receivable	2,970	1,510	4,480
Special assessments	141,612	-	141,612
Due from other governments	18,051	5,550	23,601
Internal balances	(11,960)	11,960	-
Capital assets - Net (Note 5):			
Assets subject to depreciation	393,100	5,387,007	5,780,107
Assets not subject to depreciation	63,842	-	63,842
Total assets	<u>2,554,734</u>	<u>7,164,305</u>	<u>9,719,039</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable	70,557	71,109	141,666
Accrued liabilities	37,870	11,660	49,530
Due to other governments	-	346,929	346,929
Unearned revenue	836,887	-	836,887
Noncurrent liabilities:			
Due within one year	-	54,868	54,868
Due in more than one year	-	1,641,265	1,641,265
Total liabilities	<u>945,314</u>	<u>2,125,831</u>	<u>3,071,145</u>
Net assets:			
Invested in capital assets, net of related debt	456,942	3,690,874	4,147,816
Restricted for:			
Lighting district	10,709	-	10,709
Debt service	4,500	-	4,500
Capital project	2,038	-	2,038
Sanitation	24,066	-	24,066
Unrestricted	1,111,165	1,347,600	2,458,765
Total net assets	<u>\$ 1,609,420</u>	<u>\$ 5,038,474</u>	<u>\$ 6,647,894</u>

Charter Township of Clayton

Functions\Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 467,968	\$ 258,353	\$ -	\$ -
Public safety	841,339	146,817	-	-
Public service	146,138	22,875	-	-
Sanitation	325,604	318,179	-	-
Community development	24,049	-	25,849	-
Total governmental activities	1,805,098	746,224	25,849	-
Business-type activities				
Water and sewer	769,001	686,415	-	67,308
Total business-type activities	769,001	686,415	-	67,308
Total primary government	\$ 2,574,099	\$ 1,432,639	\$ 25,849	\$ 67,308

General revenues:

Property taxes

Sales tax - State share revenues

Unrestricted investment earnings

Total general revenues
and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

Statement of Activities
Year Ended December 31, 2007

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (209,615)	\$ -	\$ (209,615)
(694,522)	-	(694,522)
(123,263)	-	(123,263)
(7,425)	-	(7,425)
1,800	-	1,800
<u>(1,033,025)</u>	<u>-</u>	<u>(1,033,025)</u>
-	(15,278)	(15,278)
-	(15,278)	(15,278)
<u>(1,033,025)</u>	<u>(15,278)</u>	<u>(1,048,303)</u>
460,208	-	460,208
513,663	-	513,663
81,591	63,581	145,172
<u>1,055,462</u>	<u>63,581</u>	<u>1,119,043</u>
22,437	48,303	70,740
1,586,983	4,990,171	6,577,154
<u>\$ 1,609,420</u>	<u>\$ 5,038,474</u>	<u>\$ 6,647,894</u>

Charter Township of Clayton

Governmental Funds Balance Sheet December 31, 2007

	General Fund	Police Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,128,430	\$ 135,664	\$ 211,880	\$ 65,817	\$ 1,541,791
Receivables (net, where applicable, of allowance for uncollectible amounts):					
Property taxes	119,060	111,572	-	-	230,632
Accounts	174,696	-	-	-	174,696
Special assessments	-	-	132,470	9,142	141,612
Accrued interest	2,733	-	208	29	2,970
Due from other funds	39,161	-	-	6,300	45,461
Due from other governments	-	18,051	-	-	18,051
	<u>\$ 1,464,080</u>	<u>\$ 265,287</u>	<u>\$ 344,558</u>	<u>\$ 81,288</u>	<u>\$ 2,155,213</u>
Liabilities					
Accounts payable	\$ 61,287	\$ 9,270	\$ -	\$ -	\$ 70,557
Other accrued liabilities	30,433	7,437	-	-	37,870
Due to other funds	18,260	-	-	39,161	57,421
Deferred revenue	254,666	238,649	320,492	23,080	836,887
	<u>364,646</u>	<u>255,356</u>	<u>320,492</u>	<u>62,241</u>	<u>1,002,735</u>
Fund Balances					
Unreserved reported in:					
General fund	1,099,434	-	-	-	1,099,434
Special revenue funds	-	9,931	24,066	12,509	46,506
Debt service	-	-	-	4,500	4,500
Capital projects fund	-	-	-	2,038	2,038
	<u>1,099,434</u>	<u>9,931</u>	<u>24,066</u>	<u>19,047</u>	<u>1,152,478</u>
Total liabilities and fund balances	<u>\$ 1,464,080</u>	<u>\$ 265,287</u>	<u>\$ 344,558</u>	<u>\$ 81,288</u>	<u>\$ 2,155,213</u>

Charter Township of Clayton

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended December 31, 2007

Total governmental funds fund balance as reported in the balance sheet governmental funds	\$ 1,152,478
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.	<u>456,942</u>
Net assets of governmental activities	<u><u>\$ 1,609,420</u></u>

Charter Township of Clayton

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances December 31, 2007

	General Fund	Police Fund	Sanitation Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 237,242	\$ 222,966	\$ -	\$ -	\$ 460,208
Customer assessments	-	-	318,179	22,875	341,054
Licenses and permits	98,103	-	-	-	98,103
Intergovernmental - Federal	-	-	-	25,849	25,849
State shared revenues (and grants)	513,663	1,338	-	-	515,001
Charges for services	157,239	-	-	-	157,239
Fines and forfeitures	-	-	-	-	-
Interest	70,931	1,990	7,719	951	81,591
Other	3,011	145,479	-	-	148,490
Total revenues	1,080,189	371,773	325,898	49,675	1,827,535
Expenditures					
Current:					
General government:					
Township board	149,610	-	-	-	149,610
Supervisor	109,373	-	-	-	109,373
Elections	10,162	-	-	-	10,162
Clerk	88,176	-	-	-	88,176
Treasurer	32,323	-	-	-	32,323
Township hall and grounds	46,359	-	-	-	46,359
Cemetery	15,584	-	-	-	15,584
Zoning board	9,775	-	-	-	9,775
Appeal board	800	-	-	-	800
Board of review	1,335	-	-	-	1,335
Public safety:					
Police	-	466,418	-	-	466,418
Fire	167,267	-	-	-	167,267
Building department	133,482	-	-	-	133,482
Public service	121,782	-	-	23,219	145,001
Sanitation	600	-	325,004	-	325,604
Community development	-	-	-	24,049	24,049
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay:					
Public safety	-	10,560	-	39,238	49,798
Total expenditures	886,628	476,978	325,004	86,506	1,775,116
Excess (deficiency) of revenues over expenditures	193,561	(105,205)	894	(36,831)	52,419
Other Financing Sources (Uses)					
Transfers in	-	107,500	-	39,161	146,661
Transfers out	(146,661)	-	-	-	(146,661)
Total other financing sources (uses)	(146,661)	107,500	-	39,161	-
Net change in fund balances	46,900	2,295	894	2,330	52,419
Fund Balance - Beginning of year	1,052,534	7,636	23,172	16,717	1,100,059
Fund Balance - End of year	\$ 1,099,434	\$ 9,931	\$ 24,066	\$ 19,047	\$ 1,152,478

Charter Township of Clayton

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2007

Amounts reported for governmental activities in the statement of activities (page 11)
are different because:

Net Change in fund balances - total governmental funds (page 14)	\$ 52,419
Governmental funds report capital outlays as expenditures; however in the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	54,400
Depreciation expense	(77,080)
Net book value of assets disposed of	<u>(7,302)</u>
	<u>\$ 22,437</u>

Charter Township of Clayton

Proprietary Funds (Water and Sewer Fund) Statement of Net Assets December 31, 2007

Assets

Current assets:

Cash and cash equivalents	\$ 1,476,066
Receivables:	
Customer sales on account	55,478
Unbilled utility charges	139,880
Delinquent fees	37,738
Tap-in contracts - Current portion	33,653
Accrued interest receivable	1,510
Due from other governments	5,550
Due from other funds	11,960
	<hr/>
Total current assets	1,761,835

Non current assets:

Capital assets - Net	<hr/> 5,387,007
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Other assets:

Tap-in contracts receivable - Long-term portion	<hr/> 15,463
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Total assets	<hr/> 7,164,305
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Liabilities and Fund Equity

Current liabilities:

Accounts payable	71,109
Due to other governmental units	346,929
Accrued interest payable	11,660
Current portion of long-term debt	54,868
	<hr/>

Total current liabilities	484,566
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Noncurrent liabilities:

Long-term debt - Net of current portion	<hr/> 1,641,265
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Total current liabilities	<hr/> 2,125,831
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Net Assets

Invested in capital assets - Net of related debt	3,690,874
Unrestricted	1,347,600
	<hr/>

Total net assets	<hr/> \$ 5,038,474
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Charter Township of Clayton

Proprietary Funds (Water and Sewer Fund) Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

Operating Revenues	
Sewer treatment fees	\$ 396,023
Water usage fees	273,301
Interest and penalty charges	17,091
	<hr/>
Total operating revenues	686,415
	<hr/>
Operating Expenses	
Sewer treatment cost	251,011
Water usage cost	258,429
Computer billing	7,866
Hydrant expense	451
Pump station expense	68,766
Depreciation	51,623
Administration - Salaries and fringe benefits	47,935
Supplies	58
	<hr/>
Total operating expenses	686,139
	<hr/>
Operating income	276
	<hr/>
Nonoperating Revenues (Expenses)	
Interest on investments	63,581
Interest expense	(82,862)
	<hr/>
Total nonoperating expense	(19,281)
	<hr/>
Capital contribution:	
Tap-in fees	67,308
	<hr/>
Change in net assets	48,303
	<hr/>
Net Assets - Beginning of year	4,990,171
	<hr/>
Net Assets - End of year	\$ 5,038,474
	<hr/> <hr/>

Charter Township of Clayton

Proprietary Funds (Water and Sewer Fund) Statement of Cash Flows Year Ended December 31, 2007

Cash Flows from Operating Activities	
Cash received from customers	\$ 673,621
Cash payments to suppliers and employees	(599,426)
Internal activity - Payment to other funds	(92,670)
	<hr/>
Net cash provided by operating activities	(18,475)
	<hr/>
Cash Flows from Capital and Related Financing Activities	
Principal and interest paid on operating debt	(123,684)
Capital contributions received	57,000
	<hr/>
Net cash provided by capital and related financing activities	(66,684)
	<hr/>
Cash Flows from Investing Activities	
Interest on investments	63,970
	<hr/>
Net cash provided by investing activities	63,970
	<hr/>
Net increase in cash and cash equivalents	(21,189)
	<hr/>
Cash and Cash Equivalents - Beginning of year	1,497,255
	<hr/>
Cash and Cash Equivalents - End of year	\$ 1,476,066
	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 276
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	51,623
Change in assets and liabilities:	
Receivables	(12,794)
Decrease in due from other funds	(44,735)
Accounts payable	(12,845)
	<hr/>
Net Cash Provided by Operating Activities	\$ (18,475)
	<hr/> <hr/>

Charter Township of Clayton

Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2007

Assets

Cash and cash equivalents	\$ 1,333,460
Total assets	<u>\$ 1,333,460</u>

Liabilities

Accounts payable	\$ 564
Due to other governmental units	<u>1,332,896</u>
Total liabilities	<u>\$ 1,333,460</u>

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The Charter Township of Clayton, Michigan elected Charter Township status in June 1978. The Charter Township of Clayton is governed by an elected seven-member council (Board). The Township provides the following services as authorized by its charter: public safety (police, fire and building inspection), highways and streets, sanitations, public improvements, recreation, planning, and general administrative services.

The Township currently does not have any components units as defined under current governmental accounting standards.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

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

The Police Fund is used to account for the activities related to the Township policing their own community.

The Sanitation Fund is used to account for the customer charges which are to be used to pay contracted services for rubbish collection.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial (Continued)

The Township reports the following major proprietary funds:

The Water Supply and Sewer System Fund is maintained for the operations of the water distribution system and sewage pumping and collection system that transmit the sewage to Genesee County's treatment plant.

Additionally, the Township reports the following fiduciary activities:

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial (Continued)

Property Tax Revenue

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

The Township's 2006 tax is levied and collectible on December 1, 2006, and is recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Township totaled \$228.5 million, on which taxes levied consisted of 1.0400 mills for operating purposes and 0.9773 mills of special voted for police. This resulted in \$237,242 for operating and \$223,328 for police. These amounts are recognized in the respective General and Police Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

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

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Water and sewer distribution systems	60 years
Water and sewer treatment facilities	100 years
Buildings	50 years
Building and land improvements	20 years
Vehicles	5 years
Other tools and equipment	5 years

Compensated Absences (Vacation and Sick Leave) - There is no liability for unpaid accumulated vacation or unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

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

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial (Continued)

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

Comparative Data - Comparative data is not included in the Township's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the state's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Surplus at January 1, 2007	\$	11,555
Current year building permit revenue		94,165
Related expenses:		
Direct costs		<u>(133,482)</u>
Cumulative shortfall at December 31, 2007	\$	<u>(27,762)</u>

Budgetary Information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other Township funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Budgetary Information (Continued)

- Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- Prior to January 1, the budget is legally enacted on a departmental (activity) basis through passage of a resolution in accordance with Public Act 621 of the State of Michigan.
- The Supervisor is authorized to transfer budgeted amounts within departmental appropriation accounts; however, any revisions that alter the total expenditures of any department must be approved by the Township Board.
- Formal budgetary integration is employed as a management control device during the year for all budgetary funds. The amount of encumbrances at year end is not known. Also, all budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- Budget appropriations lapse at year-end.

Budgeted amounts are reported on the financial statements as originally adopted and as amended by the Township Board.

Budget Compliance - The following individual funds incurred expenditures in excess of appropriations:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Over Budget</u>
Major Governmental Fund - General:			
Supervisor	\$108,728	\$109,373	\$ 645
Clerk	84,910	88,176	3,266
Township hall and grounds	41,350	46,359	5,009
Cemetery	15,479	15,584	105
Fire	166,016	167,267	1,251
Building department	133,042	133,482	440
Major Governmental Fund - Police:			
Capital outlay	1,000	10,560	9,560
Major Governmental Fund – Sanitation	318,950	325,004	6,054

Note 3 - Deposits and Investments

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

The Township has designated two banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. Charter Township of Clayton's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$1,940,370 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, \$1,254,372 of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Bank investment pool	\$ 887,184	N/A
Money market	2,737	N/A

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 887,184	AAA-VI	Fitch
Money market	2,737	N/A	N/A

Concentration of credit risk:

The Township places no limit on the amount the district may invest in any one issuer. The Township has no investment in one issuer that is more than 5 percent of the Township's total investments.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ -	\$ 493,315
Special assessments	-	343,572
Total	<u>\$ -</u>	<u>\$ 836,887</u>

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets

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

	Balance 1/1/2007	Increases	Decreases	Ending 12/31/2007
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 63,842	\$ -	\$ -	\$ 63,842
Total capital assets, not being depreciated	63,842	-	-	63,842
Capital assets, being depreciated:				
Buildings	399,242	-	-	399,242
Building improvements	183,130	-	-	183,130
Land improvements	32,846	-	-	32,846
Public infrastructure	56,827	-	-	56,827
Vehicles	130,916	54,400	31,300	154,016
Equipment	111,949	-	-	111,949
Total Capital Assets Being Depreciated	914,910	54,400	31,300	938,010
Less accumulated depreciation for:				
Buildings	(219,783)	(3,849)	-	(223,632)
Building improvements	(140,652)	(3,095)	-	(143,747)
Land improvements	(9,459)	(1,376)	-	(10,835)
Public infrastructure	(3,410)	(1,137)	-	(4,547)
Vehicles	(60,222)	(50,233)	(23,998)	(86,457)
Equipment	(58,302)	(17,390)	-	(75,692)
Total Accumulated Depreciation	(491,828)	(77,080)	(23,998)	(544,910)
Total capital assets, being depreciated, net	423,082	(22,680)	7,302	393,100
Governmental Activities Capital Assets - Net	\$ 486,924	\$ (22,680)	\$ 7,302	\$ 456,942

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets (Continued)

	Balance 1/1/2007	Increases	Decreases	Ending 12/31/2007
Business-type Activities				
Capital assets, not being depreciated:				
Sewer system	\$ 1,748,616	\$ -	\$ 1,748,616	\$ -
Water system	307,379	-	307,379	-
Total capital assets, not being depreciated	2,055,995	-	2,055,995	-
Capital assets, being depreciated:				
Sewer system	3,522,702	1,748,616	-	5,271,318
Water system	644,620	307,379	-	951,999
Total capital assets, being depreciated	4,167,322	2,055,995	-	6,223,317
Less accumulated depreciation for:				
Sewer system	(708,352)	(39,599)	-	(747,951)
Water system	(76,335)	(12,024)	-	(88,359)
Total Accumulated Depreciation	(784,687)	(51,623)	-	(836,310)
Business-type Activities Capital Assets - Net	\$ 3,382,635	\$ 2,004,372	\$ -	\$ 5,387,007

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

Governmental activities:	
General government	\$ 4,471
Public safety	71,472
Public services	1,137
	<u>\$ 77,080</u>
Business-type activities:	
Water	\$ 12,024
Sewer	39,599
Total business-type activities	<u>\$ 51,623</u>

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 39,161
Water and sewer fund	General fund	11,960
Other governmental funds	General fund	<u>6,300</u>
Total		<u>\$ 57,421</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General fund	Police fund	\$ 107,500
General fund	Capital project	<u>39,161</u>
Total		<u>\$ 146,661</u>

The transfers from the General Fund to the Police and Capital project funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

Note 7 - Long-term Debt

The Township entered into an agreement with Genesee County for the Western Trunk Extension of the County's Sanitary Sewage Disposal System running through Clayton Township. Significant details regarding the Township's obligation relating to this agreement are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
General obligations	\$ 1,748,615	\$ -	\$ (52,482)	\$ 1,696,133	\$ 54,868
Total business-type activities	<u>\$ 1,748,615</u>	<u>\$ -</u>	<u>\$ (52,482)</u>	<u>\$ 1,696,133</u>	<u>\$ 54,868</u>

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 7 - Long-term Debt (Continued)

Year Ending December 31,	Principal Due	Interest Due	Total Payment
2008	\$ 54,868	\$ 68,864	\$ 123,732
2009	57,254	66,623	123,877
2010	59,640	64,285	123,925
2011	64,411	61,804	126,215
2012	66,797	59,180	125,977
2013-2017	388,846	251,958	640,804
2018-2022	500,967	162,637	663,604
2023-2027	<u>503,350</u>	<u>45,025</u>	<u>548,375</u>
Total	<u>\$ 1,696,133</u>	<u>\$ 780,376</u>	<u>\$ 2,476,509</u>

County Contractual Obligations

The above contractual obligation to the County is the result of the County issuance of bonds on the Township's behalf. The Township has pledged substantially all revenue of the water and sewer fund, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. Proceeds from the County bonds provided financing for the construction of the Western Trunk extension. The remaining principal and interest to be paid on the bonds is \$2,476,509. During the current year, net revenues of the system were \$41,777 compared to the annual debt requirements of \$135,153.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance to these claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Defined Contribution Pension Plan

The Township provides pension benefits to substantially all full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after 90 days of employment. As established by Township resolution, the Township contributes ten percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

Charter Township of Clayton

Notes to Financial Statements December 31, 2007

Note 9 - Defined Contribution Pension Plan (Continued)

The Township's total payroll during the current year was \$601,376. The current year contribution was calculated based on covered payroll of \$433,420, resulting in an employer contribution of \$43,342 and employee contributions of \$1,617.

Note 10 - Joint Ventures

Swartz Creek Area Fire Department - In April 1980, the Township entered into a joint venture with the City of Swartz Creek to create the Swartz Creek Area Fire Department. The purpose of this joint venture was to obtain adequate fire protection for residents of the Township. The agreement calls for the quarterly accumulation of expenditures and then billing to each participating governmental unit on the basis of fire runs. The agreement provides the Township a half interest in the vehicles, offices, and operating equipment maintained by the Swartz Creek Area Fire Department. The Swartz Creek Area Fire Department submits each governmental unit's share of the annual operating budget before their respective governing boards for approval. Audited financial statements are available for public inspection at the Fire Department.

	Year Ended December 31, 2007
Total assets	\$142,454
Total liabilities	26,085
Total fund equity	116,369
Total revenues	297,008
Total expenditures	302,645

Note 11 - Related Party Transactions

The Township has an agreement with a related party to perform custodial services in certain Township buildings. The agreement has a set fee of \$200 per month for the township hall and \$140 per month for the police building. There were no receivables or payables relating to this agreement as of year-end.

Note 12 - Contingent Liabilities

The Township participates in the Department of Housing and Urban Development Community Block Grant Program and other federal grant programs. These programs are subject to compliance audit by the granting agencies. The amount, if any, of expenditures which may be subsequently disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

Required Supplemental Information

Charter Township of Clayton

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over)
	Original	Final		
Revenues				
Taxes	\$ 230,000	\$ 230,000	\$ 237,242	\$ 7,242
Licenses and permits	126,050	126,050	98,103	(27,947)
State-shared revenues	526,813	526,813	513,663	(13,150)
Charges for services	141,150	151,957	157,239	5,282
Interest	38,000	49,500	70,931	21,431
Other	500	500	3,011	2,511
Total revenues	<u>1,062,513</u>	<u>1,084,820</u>	<u>1,080,189</u>	<u>(4,631)</u>
Expenditures				
Current:				
General government:				
Township Board	165,021	165,021	149,610	15,411
Supervisor	108,728	108,728	109,373	(645)
Elections	5,850	10,477	10,162	315
Clerk	84,910	84,910	88,176	(3,266)
Treasurer	41,800	41,800	32,323	9,477
Township hall and grounds	41,350	41,350	46,359	(5,009)
Cemetery	7,400	15,479	15,584	(105)
Zoning Board	9,250	11,280	9,775	1,505
Appeal Board	2,200	2,200	800	1,400
Board of Review	1,850	1,850	1,335	515
Public safety:				
Fire	152,210	166,016	167,267	(1,251)
Building department	133,042	133,042	133,482	(440)
Public service	120,725	139,725	121,782	17,943
Sanitation	600	600	600	-
Total expenditures	<u>874,936</u>	<u>922,478</u>	<u>886,628</u>	<u>35,850</u>
Excess of revenues over expenditures	<u>187,577</u>	<u>162,342</u>	<u>193,561</u>	<u>31,219</u>
Other Financing Uses				
Transfers out	(214,440)	(214,440)	(146,661)	67,779
Total other financing uses	<u>(214,440)</u>	<u>(214,440)</u>	<u>(146,661)</u>	<u>67,779</u>
Net change in fund balance	(26,863)	(52,098)	46,900	98,998
Fund Balance - Beginning of year	1,052,534	1,052,534	1,052,534	-
Fund Balance - End of year	<u><u>\$ 1,025,671</u></u>	<u><u>\$ 1,000,436</u></u>	<u><u>\$ 1,099,434</u></u>	<u><u>\$ 98,998</u></u>

Note: The budget basis is the same as generally accepted accounting principles.

Charter Township of Clayton

Required Supplemental Information Budgetary Comparison Schedule – Police Fund Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over)
	Original	Final		
Revenues				
Taxes	\$ 214,000	\$ 214,000	\$ 222,966	\$ 8,966
Intergovernmental - state	700	700	1,338	638
Interest	500	500	1,990	1,490
Other	86,000	86,000	145,479	59,479
Total revenues	<u>301,200</u>	<u>301,200</u>	<u>371,773</u>	<u>70,573</u>
Expenditures				
Current:				
Public safety	472,640	472,640	466,418	6,222
Capital outlay	1,000	1,000	10,560	(9,560)
Total expenditures	<u>473,640</u>	<u>473,640</u>	<u>476,978</u>	<u>(3,338)</u>
Excess (deficiency) of revenues over expenditures	(172,440)	(172,440)	(105,205)	67,235
Other Financing Sources				
Transfers in	175,440	175,440	107,500	(67,940)
Net change in fund balance	3,000	3,000	2,295	(705)
Fund Balance at Beginning of Year	<u>7,636</u>	<u>7,636</u>	<u>7,636</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 10,636</u>	<u>\$ 10,636</u>	<u>\$ 9,931</u>	<u>\$ (705)</u>

Note: The budget basis is the same as generally accepted accounting principles.

Charter Township of Clayton

Required Supplemental Information Budgetary Comparison Schedule - Sanitation Fund Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over)
	Original	Final		
Revenues				
Customer assessments	\$ 313,315	\$ 313,315	\$ 318,179	\$ 4,864
Interest	2,500	2,500	7,719	5,219
Total revenues	<u>315,815</u>	<u>315,815</u>	<u>325,898</u>	<u>10,083</u>
Expenditures				
Current:				
Sanitation	318,950	318,950	325,004	(6,054)
Total expenditures	<u>318,950</u>	<u>318,950</u>	<u>325,004</u>	<u>(6,054)</u>
Net change in fund balance	(3,135)	(3,135)	894	4,029
Fund Balance - Beginning of year	<u>23,172</u>	<u>23,172</u>	<u>23,172</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 20,037</u>	<u>\$ 20,037</u>	<u>\$ 24,066</u>	<u>\$ 4,029</u>

Note: The budget basis is the same as generally accepted accounting principles.

Other Supplemental Information

Charter Township of Clayton

Nonmajor Governmental Funds Fund Descriptions

The Township reports the following nonmajor governmental funds:

Special Revenue Funds:

Lights - This fund is used to account for revenues earned and expenditures incurred by the Township for lighting the district.

CDBG - To account for the revenues earned and the expenditures incurred by the Township related to the Community Development Block Grant passed through from Genesee County.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Fund - This fund is used to account for financial resources used for the construction of major capital improvements.

Charter Township of Clayton

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds		Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
	Lighting Districts	CDBG		Revolving and Improvements	
Assets					
Cash and cash equivalents	\$ 24,618	\$ -	\$ -	\$ 41,199	\$ 65,817
Receivables:					
Customer assessments	9,142	-	-	-	9,142
Accrued interest	29	-	-	-	29
Due from other funds	-	1,800	4,500	-	6,300
Total assets	\$ 33,789	\$ 1,800	\$ 4,500	\$ 41,199	\$ 81,288
Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ 39,161	\$ 39,161
Deferred revenue	23,080	-	-	-	23,080
Total liabilities	23,080	-	-	39,161	62,241
Fund Balances					
Unreserved:					
Designated for lighting districts	10,709	-	-	-	10,709
Designated for CDBG	-	1,800	-	-	1,800
Designated for debt service	-	-	4,500	-	4,500
Designated for capital projects	-	-	-	2,038	2,038
Total fund balances	10,709	1,800	4,500	2,038	19,047
Total liabilities and fund balances	\$ 33,789	\$ 1,800	\$ 4,500	\$ 41,199	\$ 81,288

Charter Township of Clayton

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2007

	Special Revenue		Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	Lighting Districts	CDBG		Revolving and Improvements	
Revenues					
Customer assessments	\$ 22,875	\$ -	\$ -	\$ -	\$ 22,875
Grants	-	25,849	-	-	25,849
Interest	951	-	-	-	951
Total revenues	<u>23,826</u>	<u>25,849</u>	<u>-</u>	<u>-</u>	<u>49,675</u>
Expenditures					
Current:					
Public service	23,219	-	-	-	23,219
Community development	-	24,049	-	-	24,049
Capital outlay:					
Public safety	-	-	-	39,238	39,238
Total expenditures	<u>23,219</u>	<u>24,049</u>	<u>-</u>	<u>39,238</u>	<u>86,506</u>
Excess (deficiency) of revenues over expenditures	<u>607</u>	<u>1,800</u>	<u>-</u>	<u>(39,238)</u>	<u>(36,831)</u>
Other Financing Sources					
Transfers in	-	-	-	39,161	39,161
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,161</u>	<u>39,161</u>
Net change in fund balances	607	1,800	-	(77)	2,330
Fund Balance - Beginning of year	<u>10,102</u>	<u>-</u>	<u>4,500</u>	<u>2,115</u>	<u>16,717</u>
Fund Balance - End of year	<u><u>\$ 10,709</u></u>	<u><u>\$ 1,800</u></u>	<u><u>\$ 4,500</u></u>	<u><u>\$ 2,038</u></u>	<u><u>\$ 19,047</u></u>

Charter Township of Clayton

Other Supplemental Information Budgetary Comparison - Special Revenue Funds Year Ended December 31, 2007

	Lighting Districts			Variance with Final Budget - Under (Over)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Customer assessments	\$ 23,344	\$ 23,344	\$ 22,875	\$ (469)
Interest	500	500	951	451
Total revenues	<u>23,844</u>	<u>23,844</u>	<u>23,826</u>	<u>(18)</u>
Expenditures				
Current:				
Public service	23,344	23,344	23,219	125
Total expenditures	<u>23,344</u>	<u>23,344</u>	<u>23,219</u>	<u>125</u>
Net change in fund balances	500	500	607	107
Fund Balance - Beginning of year	<u>10,102</u>	<u>10,102</u>	<u>10,102</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 10,602</u>	<u>\$ 10,602</u>	<u>\$ 10,709</u>	<u>\$ 107</u>

Charter Township of Clayton

Other Supplemental Information Budgetary Comparison - Special Revenue Funds Year Ended December 31, 2007

	CDBG			Variance with Final Budget - Under (Over)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Grants	\$ 61,899	\$ 91,899	\$ 25,849	\$ (66,050)
Total revenues	61,899	91,899	25,849	(66,050)
Expenditures				
Current:				
Community development	1,769	31,769	24,049	7,720
Total expenditures	1,769	31,769	24,049	7,720
Net change in fund balances	60,130	60,130	1,800	(58,330)
Fund Balance - Beginning of year	-	-	-	-
Fund Balance - End of year	\$ 60,130	\$ 60,130	\$ 1,800	\$ (58,330)

Charter Township of Clayton

**Report to the Board of Trustees
December 31, 2007**

To the Board of Trustees
Charter Township of Clayton

We have recently completed our audit of the basic financial statements of Charter Township of Clayton (the "Township") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, recommendations, and informational comments which impact the Township:

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Report on Internal Control	1-2
Results of the Audit	3-5
Other Recommendations	7
Informational - Legislative Matters, Etc.	9-10

We are grateful for the opportunity to be of service to the Charter Township of Clayton. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

June 24, 2008

Report on Internal Control

June 24, 2008

To the Board of Trustees
Charter Township of Clayton

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Township's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Charter Township of Clayton as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

To the Board of Trustees
Charter Township of Clayton

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. We consider the following deficiency to be significant deficiency in internal control.

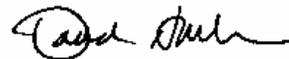
Capital Asset Information- Capital asset information included in the prior year financial statements was not reviewed and compared to the Township's records. This allowed an error to go undetected that resulted in an understatement of the beginning balance of the Township's capital assets.

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. We believe that the significant deficiency noted above is not a material weakness.

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

Very truly yours,

Plante & Moran, PLLC



Tadd A. Harburn, CPA

June 24, 2008

To the Board of Trustees
Charter Township of Clayton

We have audited the financial statements of Charter Township of Clayton for the year ended December 31, 2007, and have issued our report thereon dated June 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 7, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Charter Township of Clayton. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 15, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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 Charter Township of Clayton are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

To the Board of Trustees
Charter Township of Clayton

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 from those expected. The most sensitive estimate(s) affecting the financial statements was the useful life of capital assets.

Useful lives of capital assets are based upon management's estimate of their life. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 24, 2008.

To the Board of Trustees
Charter Township of Clayton

Management Consultations 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 organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

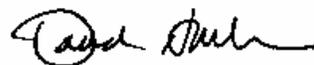
Other Audit Findings or Issues

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization’s auditors.

This information is intended solely for the use of Board of Trustees and management of Charter Township of Clayton and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Tadd A. Harburn, CPA

Other Recommendations

Charter Township of Clayton

Other Recommendations

Limited Access to IT System for Non-Finance Department Employees - We noted that there are no restrictions to employees outside the finance department to access the computer software financial system and prevent the possibility of unauthorized changes being made to the data. Any employee who has access to the "Fund Balance" program could potentially post a journal entry and/or set up vendors. We suggest the Township consider limiting the access to the financial information for staff who works outside the finance department. We also suggest each employee should use a unique password to access computers and applications.

Debt Service Fund - We noted that the Debt service fund is still open but that the fund has been inactive for many years. As of December 31, 2007 the Township does not have any governmental activity debt. The transaction to pay for the Western Trunk sewer contract should be recorded directly within the Water and Sewer Fund; this includes budgeted amounts to repay the bond that are currently budgeted in the Debt service.

Payroll - During the audit it was noted in our sample of payroll transactions that a time slip was not signed by Supervisor. We are not suggesting that the supervisory review did not occur but rather the review was not documented. Due to the importance of supervisory review of payroll, we suggest that time slip reviewers document their review and approval by initialing the time slip. Also during the audit it was noted that there is no master salary and hourly rate schedule. We suggest that a signed copy of the approved salary and wage schedule be retained by the appropriate Township official.

Informational

Informational/Legislative Comments

Treasurer's Report on Investments

A new law was passed in December 2007 for reporting on investments to the board. The treasurer is now required to report on investments at least quarterly. While the law proscribes no minimum information requirements, we feel that the report should include a list of investments with the financial institution each issued through, the amount, and perhaps the stated interest rate.

Property Tax Revenue

Property taxes have consistently been the Township's second largest revenue source. With the continuing downturn in the real estate market, the Legislature is picking up some bills that were proposed back in 2007 that they hope will help spur sales. This includes potential legislation that would adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the "pop-up" or increase in taxable value that occurs when a property sells or a "super cap" on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the Township. We will keep you informed as significant events unfold.

In addition, the Township needs to be aware of the potential financial impact of reduced housing market values. Property tax assessments were finalized in May for the 2008 tax year. However, early indications are that declines in market values (state equalized value) may threaten the inflationary growth in taxable value that communities had been experiencing following the passage of Proposal A. It is important to understand the connection between market value declines and taxable value declines. On the one hand, a reduction in SEV (state equalized value) will not immediately result in an equivalent reduction in TV (taxable value, which is what the tax bills are now based on). The reason for this is that TVs were held down in those years since 1994 when property values increased faster than inflation; now that they are increasing less than inflation (or decreasing), Proposal A allows the TVs to continue increasing at the inflationary rate, up until the point that TV meets SEV. While some properties have already met this ceiling, the majority have not, and for this reason many communities expect 2008 TV in total to increase or decrease only slightly. However, it is important to understand that if the market downturn continues, more and more properties will hit this ceiling where TV meets SEV, and the impact will be more drastic each year we go forward. We caution the Township to keep this in mind as it begins its 2009 budget deliberations.

State-shared Revenue

State-shared revenue continues to be the Township's largest revenue source. Due to state budget issues, the Township has seen a flat trend over the last five years. The governor's 2009 budget is anticipating another decline in total sales tax collections, which will result in reduced constitutional state-shared revenue. While the governor is proposing a 4 percent increase in the statutory portion, the Township currently does not benefit from this section of the revenue source. As a result the total state-shared revenue for Clayton Township could decrease. Prior to beginning the 2009 budget cycle, you should check in with us or with the Michigan Townships Association to verify any changes that will take place between now and then.

Retiree Healthcare Benefits

The Township currently does not provide health care to retirees and their beneficiaries. Should the Township ever change its policy and begin to provide them accounting rules (GASB 45) will require the Township to measure the cost of this benefit over the time period that employees provide the services. These rules would require the Township to measure the annual cost that would be required to fully fund this benefit, with a maximum amortization period of 30 years and to report a liability for any amount of annual required contribution not funded. The annual required contribution would need to be determined by an actuary or internally by management using actuarial concepts.

Long-range Financial Planning

In light of all these and other developments and the continued uncertainty with the State's budget, we recommend that the Township implement the practice of long-range financial planning. We suggest that a five-year forecast (budget) be developed and modified each year.

Closing

We would like to thank the Township board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.