

**Montrose Charter Township
Genesee County, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Montrose Charter Township
Genesee County, Michigan

December 31, 2007

BOARD OF TRUSTEES AND ADMINISTRATION

Mark Emmendorfer	Supervisor
Kelly Yuhos	Clerk
Donald Sullivan	Treasurer
Bill Persails	Trustee
Fred Domine	Trustee
Gary Keeler	Trustee
John Newcomer	Trustee

Montrose Charter Township

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December 31, 2007

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Montrose Charter Township
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Montrose Charter Township as of and for the year ended December 31, 2007, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the 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, business-type activities, each major fund, and the aggregate remaining fund information of Montrose Charter Township 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 budgetary comparison information, as identified in the Table of Contents, 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Montrose Charter Township's basic financial statements. The combining fund financial statements listed in the Table of Contents under other supplementary financial information are presented for purposes of additional analysis and are not a required part of the financial statements of Montrose Charter Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 22, 2008

Montrose Charter Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The discussion and analysis of the Township'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:

- Intergovernmental revenues, our largest revenue source in the General Fund, decreased approximately \$65,515 from the prior year. The decrease is the net result of a decrease in State Revenue Sharing and property taxes to the Township.
- Total fund balances related to the Township's governmental funds increased by \$360,112.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to Montrose Charter Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-wide Financial Statements. The statement of net assets and the statement of activities provide information about the activities of Montrose Charter 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.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Fund Financial Statements. 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 operations of Montrose Charter Township 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 Montrose Charter Township acts solely as a trustee or agent for the benefit of those outside the government.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Montrose Charter Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Montrose Charter Township maintains six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Police Fund, and Sanitary Landfill Fund which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplementary Information section of this report.

The Township adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and the major Special Revenue Funds to demonstrate compliance with this budget.

Proprietary Funds. Montrose Charter Township maintains three (3) proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses Enterprise Funds to account for its sewer system, water system, and sewer connections activity.

Fiduciary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-26 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as this MD&A and the General Fund and major Special Revenue Funds budgetary comparison schedules. Combining statements referred to earlier in connection with nonmajor governmental funds are presented as other supplementary information.

The Township as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2006 and 2007.

	Governmental Activities		Business-type Activities		Totals	
	December 31		December 31		December 31	
	2006	2007	2006	2007	2006	2007
Assets						
Current and other assets	\$ 1,720,113	\$ 2,279,135	\$ 525,521	\$ 631,757	\$ 2,245,634	\$ 2,910,892
Capital assets, net	<u>1,730,987</u>	<u>1,690,582</u>	<u>1,549,052</u>	<u>1,504,997</u>	<u>3,280,039</u>	<u>3,195,579</u>
Total assets	3,451,100	3,969,717	2,074,573	2,136,754	5,525,673	6,106,471
Liabilities						
Current liabilities	646,087	700,997	81,238	45,365	727,325	746,362
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>281,419</u>	<u>250,256</u>	<u>281,419</u>	<u>250,256</u>
Total liabilities	646,087	700,997	362,657	295,621	1,008,744	996,618
Net Assets						
Invested in capital assets net of related debt	1,730,987	1,690,582	1,237,652	1,223,674	2,968,639	2,914,256
Restricted	573,614	968,006	-	-	573,614	968,006
Unrestricted	<u>500,412</u>	<u>610,132</u>	<u>474,264</u>	<u>617,459</u>	<u>974,676</u>	<u>1,227,591</u>
	<u>\$ 2,805,013</u>	<u>\$ 3,268,720</u>	<u>\$ 1,711,916</u>	<u>\$ 1,841,133</u>	<u>\$ 4,516,929</u>	<u>\$ 5,109,853</u>

Montrose Charter Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Net assets may serve over time as a useful indicator of a government's financial position. Montrose Charter Township's assets exceeded liabilities by \$5,109,853 as of December 31, 2007. By far the most significant portion of the Township's net assets (57 percent) reflects its investment in capital assets (e.g., land, buildings, equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Township's net assets (approximately 13 percent) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,227,591 may be used to meet the Township's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Township's net assets increased by \$592,924 during the current year as discussed below.

	Governmental Activities		Business-type Activities		Totals	
	December 31		December 31		December 31	
	2006	2007	2006	2007	2006	2007
Revenue						
Program revenue:						
Charges for services	\$ 1,216,560	\$ 1,533,279	\$ 309,747	\$ 336,017	\$ 1,526,307	\$ 1,869,296
Operating grants and contributions	20,868	63,318	-	-	20,868	63,318
Capital grants and contributions	-	111,231	391,000	-	391,000	111,231
General revenue:						
Property taxes	280,607	530,773	-	-	280,607	530,773
State shared revenue	840,144	465,338	-	-	840,144	465,338
Investment earnings	9,607	33,142	8,073	14,391	17,680	47,533
Miscellaneous	57,091	26,855	30	50	57,121	26,905
Transfers	(3,500)	(51,365)	3,500	51,365	-0-	-0-
Total revenue	2,421,377	2,712,571	712,350	401,823	3,133,727	3,114,394
Program Expenses						
General government	469,985	609,809	-	-	469,985	609,809
Public safety	885,350	1,122,067	-	-	885,350	1,122,067
Public works	409,146	370,962	326,194	272,606	735,340	643,568
Community and economic development	14,290	8,520	-	-	14,290	8,520
Recreation and cultural	178,123	137,506	-	-	178,123	137,506
Total program expenses	1,956,894	2,248,864	326,194	272,606	2,283,088	2,521,470
Change in Net Assets	\$ 464,483	\$ 463,707	\$ 386,156	\$ 129,217	\$ 850,639	\$ 592,924

Governmental Activities

Governmental activities increased the Township's net assets by \$463,707 during fiscal year 2007. Key elements of this increase are as follows:

The Township's governmental activities' revenues totaled \$2,712,571 with the greatest revenue source being charges for services. Charges for services make up approximately 56% of total governmental revenue.

The Township incurred expenses of \$2,248,864 during the year. The majority of governmental expense is associated with the public safety function, which includes fire and police services.

Montrose Charter Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Business-type Activities

Business-type activities increased the Township's net assets by \$129,217 during fiscal year 2007. The increase in net assets was due to increasing the Police and Fire contracts with the City of Montrose and restructuring of our water and sewer billing process. The majority (84%) of the revenue of the business-type activities is generated through charges for services.

The Township's Funds

Governmental Funds. The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not Montrose Charter Township as a whole. Montrose Charter Township's Board of Trustees creates funds to help manage money for specific purposes. The Township's major governmental funds for the fiscal year ended December 31, 2007 were the General Fund, Police Fund, and Sanitary Landfill Fund.

The General Fund pays for most of the Township's governmental services. The most significant service provided during the fiscal year was for general government services, which incurred expenditures of \$478,104 for the fiscal year.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer System Fund and the Water System Fund at the end of the year amounted to \$98,826 and \$518,633, respectively. The changes in net assets for the Sewer System Fund and the Water System Fund for the fiscal year were \$54,856 and \$75,976, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Township's business-type activities.

Capital Asset and Debt Administration

Capital Assets. At the end of the fiscal year, the Township had approximately \$3,195,579 invested in a broad range of capital assets, including buildings, land, equipment, and utilities. In addition, the Township has made certain investments in roads and drains within Montrose Charter Township. These assets are not reported in Montrose Charter Township's fund statements because under Michigan law these roads and drains are the property of the Genesee County Road and Drain Commissions, respectively.

Long-Term Debt. The Township reduced its notes payable balance by \$30,077 to take its outstanding debt balance to \$281,323.

Current Economic Factors

Once again Revenue Sharing will be the significant budgetary concern for the next year. The State of Michigan has not repaired or made significant progress in their budgeting problems and short falls from 2007. As the State works on their 2008 budget, there will most likely be some cuts to Township Revenue Sharing.

We will closely watch State Revenue Sharing and continue to invest wisely. We are trying to create some additional saving for future capital improvements with the saving and investing of our landfill impact monies.

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 demonstrate 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 Supervisor or Treasurer at the Township Hall.

BASIC FINANCIAL STATEMENTS

Montrose Charter Township
STATEMENT OF NET ASSETS

December 31, 2007

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,230,609	\$ 232,741	\$ 1,463,350
Investments	311,835	311,835	623,670
Receivables	529,589	52,678	582,267
Due from other governmental units	158,385	-	158,385
Prepays	83,220	-	83,220
Internal balances	(34,503)	34,503	-
Total current assets	2,279,135	631,757	2,910,892
Noncurrent assets			
Capital assets not being depreciated	229,000	-	229,000
Capital assets, net of accumulated depreciation	1,461,582	1,504,997	2,966,579
Total noncurrent assets	1,690,582	1,504,997	3,195,579
TOTAL ASSETS	3,969,717	2,136,754	6,106,471
LIABILITIES			
Current liabilities			
Accounts payable	53,548	10,288	63,836
Accrued wages payable	43,028	-	43,028
Accrued interest payable	-	4,010	4,010
Deferred revenue	604,421	-	604,421
Current portion of long-term debt	-	31,067	31,067
Total current liabilities	700,997	45,365	746,362
Noncurrent liabilities			
Noncurrent portion of long-term debt	-	250,256	250,256
TOTAL LIABILITIES	700,997	295,621	996,618
NET ASSETS			
Invested in capital assets, net of related debt	1,690,582	1,223,674	2,914,256
Restricted for:			
Capital improvements	841,545	-	841,545
Fire operations	110,358	-	110,358
Police operations	16,103	-	16,103
Unrestricted	610,132	617,459	1,227,591
TOTAL NET ASSETS	\$ 3,268,720	\$ 1,841,133	\$ 5,109,853

See accompanying notes to financial statements.

Montrose Charter Township

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 609,809	\$ 267,162	\$ 30,400	\$ -	\$ (312,247)	\$ -	\$ (312,247)
Public safety	1,122,067	321,562	21,127	111,231	(668,147)	-	(668,147)
Public works	370,962	760,031	7,887	-	396,956	-	396,956
Community and economic development	8,520	165,003	-	-	156,483	-	156,483
Recreation and cultural	137,506	19,521	3,904	-	(114,081)	-	(114,081)
Total governmental activities	2,248,864	1,533,279	63,318	111,231	(541,036)	-0-	(541,036)
Business-type activities							
Sewer system	70,471	116,013	-	-	-	45,542	45,542
Water system	183,042	220,004	-	-	-	36,962	36,962
Sewer connections	19,093	-	-	-	-	(19,093)	(19,093)
Total business-type activities	272,606	336,017	-0-	-0-	-0-	63,411	63,411
Total primary government	\$ 2,521,470	\$ 1,869,296	\$ 63,318	\$ 111,231	(541,036)	63,411	(477,625)
General revenues							
Property taxes					530,773	-	530,773
State shared revenue					465,338	-	465,338
Investment earnings					33,142	14,391	47,533
Miscellaneous					26,855	50	26,905
Transfers					(51,365)	51,365	-0-
Total general revenues and transfers					1,004,743	65,806	1,070,549
Change in net assets					463,707	129,217	592,924
Net assets, beginning of the year					2,805,013	1,711,916	4,516,929
Net assets, end of the year					\$ 3,268,720	\$ 1,841,133	\$ 5,109,853

See accompanying notes to financial statements.

Montrose Charter Township

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2007

	General	Police	Sanitary Landfill
ASSETS			
Cash and cash equivalents	\$ 448,259	\$ 42,847	\$ 529,710
Investments	-	-	311,835
Accounts receivable	-	9,199	-
Taxes receivable	147,902	325,216	-
Due from other funds	12,456	5	-
Due from other governmental units	158,385	-	-
Prepays	17,962	52,704	-
	<u>784,964</u>	<u>429,971</u>	<u>841,545</u>
TOTAL ASSETS	\$ 784,964	\$ 429,971	\$ 841,545
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 50,780	\$ 2	\$ -
Accrued payable	21,614	21,414	-
Due to other funds	46,964	-	-
Deferred revenue	322,479	392,452	-
	<u>441,837</u>	<u>413,868</u>	<u>-0-</u>
TOTAL LIABILITIES	441,837	413,868	-0-
FUND BALANCES			
Reserved for			
Prepays	17,962	52,704	-
Unreserved			
Undesignated, reported in			
General fund	325,165	-	-
Special revenue funds	-	(36,601)	841,545
	<u>343,127</u>	<u>16,103</u>	<u>841,545</u>
TOTAL FUND BALANCES	343,127	16,103	841,545
TOTAL LIABILITIES AND FUND BALANCES	\$ 784,964	\$ 429,971	\$ 841,545

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 209,793	\$ 1,230,609
-	311,835
19,520	28,719
27,752	500,870
-	12,461
-	158,385
12,554	83,220
<u>\$ 269,619</u>	<u>\$ 2,326,099</u>
\$ 2,766	\$ 53,548
-	43,028
-	46,964
33,490	748,421
<u>36,256</u>	<u>891,961</u>
12,554	83,220
-	325,165
220,809	1,025,753
<u>233,363</u>	<u>1,434,138</u>
<u>\$ 269,619</u>	<u>\$ 2,326,099</u>

Montrose Charter Township

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

December 31, 2007

Total fund balance - governmental funds \$ 1,434,138

Amounts reported for the 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 as assets in the governmental funds.

The cost of capital assets is	\$ 3,995,664	
Accumulated depreciation is	<u>(2,305,082)</u>	
Capital assets, net		1,690,582

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		<u>144,000</u>
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Net assets of governmental activities \$ 3,268,720

See accompanying notes to financial statements.

Montrose Charter Township

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	General	Police	Sanitary Landfill
REVENUES			
Taxes	\$ 208,476	\$ 339,834	\$ -
Licenses and permits	13,969	2,251	-
Intergovernmental	499,649	243,167	-
Charges for services	460,493	18,564	575,993
Fines and forfeits	-	30,870	-
Interest and rents	13,631	786	18,691
Other	33,643	6,352	-
TOTAL REVENUES	1,229,861	641,824	594,684
EXPENDITURES			
Current			
General government	478,104	-	-
Public safety	277,752	780,112	-
Public works	223,268	-	167,410
Community and economic development	8,520	-	-
Recreation and cultural	105,912	-	-
Capital outlay	-	73,029	-
TOTAL EXPENDITURES	1,093,556	853,141	167,410
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	136,305	(211,317)	427,274
OTHER FINANCING SOURCES (USES)			
Transfers in	51,644	126,250	48,963
Transfers out	(230,828)	-	(26,572)
TOTAL OTHER FINANCING SOURCES (USES)	(179,184)	126,250	22,391
NET CHANGE IN FUND BALANCES	(42,879)	(85,067)	449,665
Fund balances, beginning of year	386,006	101,170	391,880
Fund balances, end of year	<u>\$ 343,127</u>	<u>\$ 16,103</u>	<u>\$ 841,545</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 28,962	\$ 577,272
-	16,220
93,551	836,367
28,120	1,083,170
-	30,870
2,910	36,018
24	40,019
<hr/>	<hr/>
153,567	2,619,936
-	478,104
-	1,057,864
-	390,678
-	8,520
911	106,823
93,441	166,470
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94,352	2,208,459
<hr/>	<hr/>
59,215	411,477
-	226,857
(20,822)	(278,222)
<hr/>	<hr/>
(20,822)	(51,365)
38,393	360,112
194,970	1,074,026
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\$ 233,363	\$ 1,434,138
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Montrose Charter Township

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

Year Ended December 31, 2007

Net change in fund balances - total governmental funds \$ 360,112

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 204,698	
Depreciation expense	<u>(245,103)</u>	
Excess of depreciation expense over capital outlay		(40,405)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue		<u>144,000</u>
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Change in net assets of governmental activities \$ 463,707

See accompanying notes to financial statements.

Montrose Charter Township

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2007

	Sewer System	Water System	Sewer Connections	Total Proprietary Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 65,065	\$ 167,676	\$ -	\$ 232,741
Investments	-	311,835	-	311,835
Accounts receivable	24,578	28,100	-	52,678
Due from other funds	46,959	14,203	-	61,162
Total current assets	136,602	521,814	-0-	658,416
Noncurrent assets				
Capital assets, net of accumulated depreciation	459,869	701,292	343,836	1,504,997
TOTAL ASSETS	596,471	1,223,106	343,836	2,163,413
LIABILITIES				
Current liabilities				
Accounts payable	10,053	235	-	10,288
Accrued interest payable	4,010	-	-	4,010
Due to other funds	23,713	2,946	-	26,659
Current portion of long-term debt	31,067	-	-	31,067
Total current liabilities	68,843	3,181	-0-	72,024
Noncurrent liabilities				
Noncurrent portion of long-term debt	250,256	-	-	250,256
TOTAL LIABILITIES	319,099	3,181	-0-	322,280
NET ASSETS				
Invested in capital assets, net of related debt	178,546	701,292	343,836	1,223,674
Unrestricted	98,826	518,633	-	617,459
TOTAL NET ASSETS	\$ 277,372	\$ 1,219,925	\$ 343,836	\$ 1,841,133

See accompanying notes to financial statements.

Montrose Charter Township

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2007

	Sewer System	Water System	Sewer Connections	Total Proprietary Funds
OPERATING REVENUES				
Charges for services	\$ 116,013	\$ 220,004	\$ -	\$ 336,017
Other	-	50	-	50
TOTAL OPERATING REVENUES	116,013	220,054	-0-	336,067
OPERATING EXPENSES				
Administration expense	45,281	151,794	-	197,075
Other	260	10	46	316
Depreciation	13,486	31,238	19,047	63,771
TOTAL OPERATING EXPENSES	59,027	183,042	19,093	261,162
OPERATING INCOME (LOSS)	56,986	37,012	(19,093)	74,905
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	937	13,443	11	14,391
Interest expense	(11,444)	-	-	(11,444)
TOTAL NONOPERATING REVENUES (EXPENSES)	(10,507)	13,443	11	2,947
INCOME (LOSS) BEFORE TRANSFERS	46,479	50,455	(19,082)	77,852
TRANSFERS IN (OUT)				
Transfers in	8,377	29,771	19,716	57,864
Transfers out	-	(4,250)	(2,249)	(6,499)
TOTAL TRANSFERS IN (OUT)	8,377	25,521	17,467	51,365
CHANGE IN NET ASSETS	54,856	75,976	(1,615)	129,217
Net assets, beginning of year	222,516	1,143,949	345,451	1,711,916
Net assets, end of year	<u>\$ 277,372</u>	<u>\$ 1,219,925</u>	<u>\$ 343,836</u>	<u>\$ 1,841,133</u>

See accompanying notes to financial statements.

Montrose Charter Township

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	Sewer System	Water System	Sewer Connections	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 108,460	\$ 229,390	\$ -	\$ 337,850
Cash paid to suppliers	(73,538)	(211,091)	(46)	(284,675)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	34,922	18,299	(46)	53,175
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	8,377	29,771	19,716	57,864
Transfers out	-	(4,250)	(2,249)	(6,499)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	8,377	25,521	17,467	51,365
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital purchases	-	-	(19,716)	(19,716)
Principal payments	(30,077)	-	-	(30,077)
Interest expense	(11,444)	-	-	(11,444)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(41,521)	-0-	(19,716)	(61,237)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	-	(11,835)	-	(11,835)
Interest revenue	937	13,443	11	14,391
NET CASH PROVIDED BY INVESTING ACTIVITIES	937	1,608	11	2,556
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	2,715	45,428	(2,284)	45,859
Cash and cash equivalents, beginning of year	62,350	122,248	2,284	186,882
Cash and cash equivalents, end of year	<u>\$ 65,065</u>	<u>\$ 167,676</u>	<u>\$ -0-</u>	<u>\$ 232,741</u>

See accompanying notes to financial statements.

Montrose Charter Township

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2007

	Sewer System	Water System	Sewer Connections	Total Proprietary Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 56,986	\$ 37,012	\$ (19,093)	\$ 74,905
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	13,486	31,238	19,047	63,771
(Increase) decrease in receivables	(7,553)	9,336	-	1,783
(Increase) in due from other funds	(42,959)	(14,203)	-	(57,162)
Increase (decrease) in accounts payable	7,071	(44,030)	-	(36,959)
Increase (decrease) in due to other funds	7,891	(1,054)	-	6,837
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ 34,922</u>	 <u>\$ 18,299</u>	 <u>\$ (46)</u>	 <u>\$ 53,175</u>

Montrose Charter Township

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2007

	<u>Trust and Agency</u>	<u>Current Tax</u>
ASSETS		
Cash and cash equivalents	<u>\$ 34,899</u>	<u>\$ 625,255</u>
LIABILITIES		
Performance bonds payable	\$ 33,392	\$ -
Due to individuals and agencies	1,507	34,264
Due to other governmental units	<u>-</u>	<u>590,991</u>
 TOTAL LIABILITIES	 <u>\$ 34,899</u>	 <u>\$ 625,255</u>

See accompanying notes to financial statements.

Montrose Charter Township

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Montrose Charter Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of eighteen (18) townships in Genesee County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees and provides services to its residents in many areas including general government, fire protection, law enforcement, and sewer and water utility services.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Montrose Charter Township (primary government). The Township has no activities that would be classified as component units or joint ventures.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of Montrose Charter Township contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are 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 presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

Montrose Charter Township
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds and aggregated nonmajor funds. 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 the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Police Fund is used to account for a tax levy for the purpose of providing police protection.
- c. The Sanitary Landfill Fund is used for money received from the landfill based on the amount of waste received by the landfill. The Township uses these proceeds for capital improvements within the Township.
- d. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund is used to account for water services to the general public; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Sewer Connections Fund is used to account for sewer line connection projects; the costs are financed by the Township and other governmental units.

3. Measurement Focus

The government-wide, proprietary, and fiduciary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Montrose Charter Township
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

All governmental and agency funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected soon enough after year-end to pay liabilities of the current period. Significant revenues susceptible to accrual include certain intergovernmental revenues and charges for services.

Most licenses and permits, fines and forfeits, and miscellaneous revenue sources generally are recorded as revenues when received in cash because they are not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General Fund and major Special Revenue Fund budgets shown as required supplementary information to the financial statements were prepared on a basis not substantially different than the basis used to reflect actual results.

The Township employs the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to December 31, the Township Supervisor submits a proposed operating budget for the fiscal year commencing the following January 1 to the Township Board. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.

Montrose Charter Township
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- c. Prior to December 31, the budget is adopted through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- d. Formal budgetary integration is employed as a management control devise during the year.
- e. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking and savings accounts and certificates of deposits with an original maturity of 90 days or less. The cash and cash equivalents are recorded at cost, which approximates market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at fair value.

7. Receivables

Receivables consist of amounts due from various individuals and businesses related to charges for services and taxes levied that have not been collected.

8. Property Tax

Montrose Charter Township bills and collects its own property taxes and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1, and a winter tax is levied on December 1. The tax levies are due September 15 and February 28, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Genesee County Treasurer on March 1 of the year following the levy. The Genesee County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection.

The Township's property tax is levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31. Although the Township's 2007 tax is levied and collectible on December 1, 2007, it is the Township's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for the financing of Township operations.

The Township is permitted to levy up to \$1.04 per \$1,000 of taxable valuation for general governmental service and additional amounts for special services. For the year ended December 31, 2007, the Township levied .8560 mills for general governmental services, 2.7349 mills for police services, and .6613 mills for fire services. The total taxable value for the 2006 levy for the property within the Township was \$126,475,540.

Montrose Charter Township
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets

Capital assets include land, land improvements, buildings, equipment, vehicles, sewer system, and water system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	10 - 20 years
Buildings and improvements	40 years
Water and Sewer systems	20 - 40 years
Machinery and equipment	10 - 20 years

10. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

11. Deferred Revenue

Deferred revenue consists of property taxes for which there is an enforceable claim as of December 31, 2007, but which are levied to finance year 2008 operations. Governmental funds report deferred revenues in connection with receivables for revenue that is not considered 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. Government-wide financial statements report deferred revenues that are unavailable to liquidate liabilities of the current period.

12. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

13. Interfund Transactions

During the course of normal operations the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

14. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

Montrose Charter Township
 NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the federal loan mortgage corporation, federal national mortgage association or government national mortgage association.

Deposits

As of December 31, 2007, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 759,080	\$ 901,233
Savings accounts	504,015	470,227
Certificates of Deposit	<u>1,483,979</u>	<u>1,483,979</u>
Total	<u>\$ 2,747,074</u>	<u>\$ 2,855,439</u>

The Township's cash and cash equivalents captions on the basic financial statements include \$100 of imprest cash.

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of December 31, 2007, the Township accounts were insured by the FDIC for \$400,000 and the amount of \$2,455,439 was uninsured and uncollateralized.

Montrose Charter Township
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits - continued

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Interest rate risk

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Township has not adopted a policy that indicates how the Township will minimize custodial credit risk, which 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 of collateral securities that are in possession of an outside party.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2007:

	<u>Primary Government</u>	<u>Fiduciary</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,463,350	\$ 660,154	\$ 2,123,504
Investments	<u>623,670</u>	<u>-</u>	<u>623,670</u>
	<u>\$ 2,087,020</u>	<u>\$ 660,154</u>	<u>\$ 2,747,174</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at December 31, 2007, are as follows:

Due to General Fund from:	
Sewer Fund	\$ 9,510
Water Fund	<u>2,946</u>
	<u>\$ 12,456</u>
 Due to Police Fund from:	
General Fund	<u>\$ 5</u>

Montrose Charter Township
NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to Sewer System Fund from:	
General Fund	\$ <u>46,959</u>
Due to Water System Fund from:	
Sewer Fund	\$ <u>14,203</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers.

Transfers to General Fund from:	
Water System Fund	\$ 4,250
Sanitary Landfill Fund	26,572
Nonmajor governmental funds	<u>20,822</u>
	\$ <u>51,644</u>
Transfers to Police Fund from:	
General Fund	\$ <u>126,250</u>
Transfers to Sanitary Landfill Fund from:	
General Fund	\$ <u>48,963</u>
Transfers to Sewer Systems Fund from:	
General Fund	\$ <u>8,377</u>
Transfers to Water System Fund from:	
General Fund	\$ 27,522
Sewer Connections Fund	<u>2,249</u>
	\$ <u>29,771</u>
Transfers to Sewer Connections Fund from:	
General Fund	\$ <u>19,716</u>

Montrose Charter Township
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2007

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

Governmental activities

	<u>Balance</u> <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2007</u>
Capital assets not being depreciated				
Land	\$ 229,000	\$ -	\$ -	\$ 229,000
Capital assets being depreciated				
Land improvements	817,738	-	-	817,738
Buildings and improvements	1,121,406	6,337	-	1,127,743
Machinery and equipment	<u>1,622,822</u>	<u>198,361</u>	<u>-</u>	<u>1,821,183</u>
Total capital assets being depreciated	3,561,966	204,698	-0-	3,766,664
Less accumulated depreciation for:				
Land improvements	(243,863)	(41,383)	-	(285,246)
Buildings and improvements	(578,897)	(28,194)	-	(607,091)
Machinery and equipment	<u>(1,237,219)</u>	<u>(175,526)</u>	<u>-</u>	<u>(1,412,745)</u>
Total accumulated depreciation	<u>(2,059,979)</u>	<u>(245,103)</u>	<u>-0-</u>	<u>(2,305,082)</u>
Net capital assets being depreciated	<u>1,501,987</u>	<u>(40,405)</u>	<u>-0-</u>	<u>1,461,582</u>
Net capital assets - governmental activities	<u>\$ 1,730,987</u>	<u>\$ (40,405)</u>	<u>\$ -0-</u>	<u>\$ 1,690,582</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 136,492
Public safety	77,928
Recreation and cultural	<u>30,683</u>
Total depreciation expense	<u>\$ 245,103</u>

Montrose Charter Township
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2007

NOTE E: CAPITAL ASSETS - CONTINUED

Business-type activities

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
Capital assets being depreciated				
Sewer system	\$ 539,460	\$ -	\$ -	\$ 539,460
Water system	1,249,526	-	-	1,249,526
Sewer connection	<u>361,228</u>	<u>19,716</u>	<u>-</u>	<u>380,944</u>
Total capital assets being depreciated	2,150,214	19,716	-0-	2,169,930
Less accumulated depreciation for:				
Sewer system	(66,105)	(13,486)	-	(79,591)
Water system	(516,996)	(31,238)	-	(548,234)
Sewer connection	<u>(18,061)</u>	<u>(19,047)</u>	<u>-</u>	<u>(37,108)</u>
Total accumulated depreciation	<u>(601,162)</u>	<u>(63,771)</u>	<u>-0-</u>	<u>(664,933)</u>
Net capital assets - business-type activities	<u>\$ 1,549,052</u>	<u>\$ 44,056</u>	<u>\$ -0-</u>	<u>\$ 1,504,997</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended December 31, 2007:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007	Amount Due Within One Year
Business-type activities					
Note payable	<u>\$ 311,400</u>	<u>\$ -0-</u>	<u>\$ 30,077</u>	<u>\$ 281,323</u>	<u>\$ 31,067</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Note Payable

\$448,953 Note payable, dated June 29, 2000, due in annual installments ranging from \$40,287 to \$41,260 through August 22, 2015, including a variable interest rate currently at 3.6218 percent for the Vienna Road and Seymour Road Sanitary Sewer Project, issued in accordance with Public Act 99 of 1933. Variable interest rates for this note means a qualified tax-exempt rate of 5.91 percent per annum from the date of the Agreement through August 21, 2005 with such interest rate adjusted and effective on August 22, 2005 through August 21, 2010 to be equal to 91 percent of the average yield on U.S. Treasury Notes with maturity dates occurring within the month of July 2010 and with such interest rate adjusted again and effective on August 22, 2010 and thereafter to be equal to 91 percent of the average yield on U.S. Treasury Notes with maturity dates occurring within the month of July 2015, computed on the basis of a 360-day year for the actual number of days elapsed. In no event shall interest exceed any maximum rate of interest permitted by law.

\$ 281,323

Montrose Charter Township
 NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: LONG-TERM DEBT CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the note are as follows:

<u>Year Ending December 31,</u>	<u>Sewer System Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 31,067	\$ 10,193
2009	32,192	9,068
2010	33,358	7,902
2011	34,567	6,694
2012	35,818	5,442
2013-2015	114,321	8,352
	\$ 281,323	\$ 47,651

NOTE G: RETIREMENT PLAN

POLICE

Plan Description

On October 17, 1995, the Township Board adopted a defined contribution retirement plan for full-time and part-time police employees with Michigan Employees Retirement System (MERS). Full-time employees must contribute a minimum of 1 percent per pay period to receive a contribution from the Township in the form of a bonus of 5 percent per pay period. Part-time employees can participate in the plan, but will not receive the Township contribution. The Township's contribution for year ended December 31, 2007 was \$22,957 and the employee contribution was \$4,570.

NOTE H: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan, with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township carries commercial insurance for the risk of loss due to crime, employee dishonesty, and other employer liabilities.

Montrose Charter Township

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE I: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the reserved fund balances as of December 31, 2007:

General Fund		
Reserved for prepaids	\$	17,962
Special Revenue Funds		
Police Fund		
Reserved for prepaids		52,704
Nonmajor governmental funds		
Reserved for prepaids		<u>12,554</u>
TOTAL REPORTING ENTITY	\$	<u>83,220</u>

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the budgetary comparison schedules shown as required supplementary information to the basic financial statements, the Township's budgeted expenditures in the General Fund and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level for the General Fund and at the fund level for the Special Revenue Funds.

During the year ended December 31, 2007, the Township incurred expenditures in the General Fund and Special Revenue Funds in excess of the amount appropriated as follows:

	<u>Amounts</u> <u>Appropriated</u>	<u>Amounts</u> <u>Expended</u>	<u>Variance</u>
General Fund			
General government			
Treasurer	\$ 22,651	\$ 23,147	\$ 496
Assessor	-	1,221	1,221
Bookkeeper	4,330	4,635	305
Elections	3,370	3,923	553
Building and grounds	-	83,497	83,497
Public safety			
Fire department	170,450	192,188	21,738
Building inspection	82,020	85,564	3,544
Public works			
Highways and streets	13,735	52,399	38,664
Recreation and cultural			
Library	6,000	9,353	3,353
Transfers out	110,400	230,828	120,428

Montrose Charter Township
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2007

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS- CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Police Fund			
Public safety	\$ 726,542	\$ 853,141	\$ 126,599
Fire Fund			
Public safety	-	102,531	102,531
Sanitary Landfill Fund			
Public works	65,000	193,982	128,982

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2007:

Governmental Activities	
Police operations	\$ 16,103
Fire operations	110,358
Capital improvements	<u>841,545</u>
	<u>\$ 968,006</u>

REQUIRED SUPPLEMENTARY INFORMATION

Montrose Charter Township

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 120,435	\$ 120,435	\$ 208,476	\$ 88,041
Licenses and permits	24,000	24,000	13,969	(10,031)
Intergovernmental	487,321	487,321	499,649	12,328
Charges for services	452,053	452,053	460,493	8,440
Interest and rents	7,200	7,200	13,631	6,431
Other	50,400	50,400	33,643	(16,757)
TOTAL REVENUES	1,141,409	1,141,409	1,229,861	88,452
EXPENDITURES				
Current				
General government				
Township board	236,839	236,839	217,499	19,340
Supervisor	22,570	22,570	22,465	105
Secretaries	47,330	47,330	45,862	1,468
Clerk	22,951	22,951	22,090	861
Board of review	1,480	1,480	1,066	414
Treasurer	22,651	22,651	23,147	(496)
Assessor	-	-	1,221	(1,221)
Bookkeeper	4,330	4,330	4,635	(305)
Elections	3,370	3,370	3,923	(553)
Buildings and grounds	-	-	83,497	(83,497)
Cemetery	59,150	59,150	52,699	6,451
Total general government	420,671	420,671	478,104	(57,433)
Public safety				
Fire department	170,450	170,450	192,188	(21,738)
Building inspection	82,020	82,020	85,564	(3,544)
Total public safety	252,470	252,470	277,752	(25,282)
Public works				
Refuse collection	200,310	200,310	170,869	29,441
Highways and streets	13,735	13,735	52,399	(38,664)
Total public works	214,045	214,045	223,268	(9,223)

Montrose Charter Township

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
EXPENDITURES - CONTINUED				
Current - continued				
Community and economic development				
Planning commission	\$ 16,150	\$ 16,150	\$ 5,734	\$ 10,416
Zoning board of appeals	5,850	5,850	2,786	3,064
Total community and economic development	22,000	22,000	8,520	13,480
Recreation and cultural				
Community center	110,218	110,218	96,559	13,659
Library	6,000	6,000	9,353	(3,353)
Total recreation and cultural	116,218	116,218	105,912	10,306
TOTAL EXPENDITURES	1,025,404	1,025,404	1,093,556	(68,152)
EXCESS OF REVENUES OVER EXPENDITURES	116,005	116,005	136,305	20,300
OTHER FINANCING SOURCES (USES)				
Transfers in	55,000	55,000	51,644	(3,356)
Transfers out	(110,400)	(110,400)	(230,828)	(120,428)
TOTAL OTHER FINANCING SOURCES (USES)	(55,400)	(55,400)	(179,184)	(123,784)
NET CHANGE IN FUND BALANCE	60,605	60,605	(42,879)	(103,484)
Fund balance, beginning of year	386,006	386,006	386,006	-0-
Fund balance, end of year	\$ 446,611	\$ 446,611	\$ 343,127	\$ (103,484)

Montrose Charter Township

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 397,880	\$ 397,880	\$ 339,834	\$ (58,046)
Licenses and permits	2,200	2,200	2,251	51
Intergovernmental	275,980	275,980	243,167	(32,813)
Charges for services	38,500	38,500	18,564	(19,936)
Fines and forfeits	23,000	23,000	30,870	7,870
Interest and rents	500	500	786	286
Other	14,000	14,000	6,352	(7,648)
TOTAL REVENUES	752,060	752,060	641,824	(110,236)
EXPENDITURES				
Current				
Public safety	694,542	694,542	780,112	(85,570)
Capital outlay	32,000	32,000	73,029	(41,029)
TOTAL EXPENDITURES	726,542	726,542	853,141	(126,599)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	25,518	25,518	(211,317)	16,363
OTHER FINANCING SOURCES				
Transfers in	-	-	126,250	126,250
NET CHANGE IN FUND BALANCE	25,518	25,518	(85,067)	(110,585)
Fund balance, beginning of year	101,170	101,170	101,170	-0-
Fund balance, end of year	\$ 126,688	\$ 126,688	\$ 16,103	\$ (110,585)

Montrose Charter Township

Sanitary Landfill Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 625,000	\$ 625,000	\$ 575,993	\$ (49,007)
Interest	20,000	20,000	18,691	(1,309)
TOTAL REVENUES	645,000	645,000	594,684	(50,316)
EXPENDITURES				
Public works	65,000	65,000	167,410	(102,410)
EXCESS OF REVENUES OVER EXPENDITURES	580,000	580,000	427,274	(152,726)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	48,963	48,963
Transfers out	-	-	(26,572)	(26,572)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	22,391	22,391
NET CHANGE IN FUND BALANCE	580,000	580,000	449,665	(130,335)
Fund balance, beginning of year	391,880	391,880	391,880	-0-
Fund balance, end of year	\$ 971,880	\$ 971,880	\$ 841,545	\$ (130,335)

OTHER SUPPLEMENTARY INFORMATION

Montrose Charter Township
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET

December 31, 2007

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Fire	Park	Cemetery	
ASSETS				
Cash and cash equivalents	\$ 107,005	\$ -	\$ 102,788	\$ 209,793
Accounts receivable	-	19,520	-	19,520
Taxes receivable	27,752	-	-	27,752
Prepays	10,170	776	1,608	12,554
	\$ 144,927	\$ 20,296	\$ 104,396	\$ 269,619
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,079	\$ 1,687	\$ -	\$ 2,766
Deferred revenue	33,490	-	-	33,490
	34,569	1,687	-0-	36,256
FUND BALANCES				
Reserved for prepaids	10,170	776	1,608	12,554
Unreserved - undesignated	100,188	17,833	102,788	220,809
	110,358	18,609	104,396	233,363
	\$ 144,927	\$ 20,296	\$ 104,396	\$ 269,619

Montrose Charter Township

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Fire	Park	Cemetery	
REVENUES				
Taxes	\$ 28,962	\$ -	\$ -	\$ 28,962
Intergovernmental	93,551	-	-	93,551
Charges for services	-	19,520	8,600	28,120
Interest and rents	698	-	2,212	2,910
Other	24	-	-	24
TOTAL REVENUES	123,235	19,520	10,812	153,567
EXPENDITURES				
Current				
Recreation and cultural	-	911	-	911
Capital Outlay	93,441	-	-	93,441
TOTAL EXPENDITURES	93,441	911	-0-	94,352
EXCESS OF REVENUES OVER EXPENDITURES	29,794	18,609	10,812	59,215
OTHER FINANCING USES				
Transfers out	-	(20,822)	-	(20,822)
NET CHANGE IN FUND BALANCES	29,794	(2,213)	10,812	38,393
Fund balances, beginning of year	80,564	20,822	93,584	194,970
Fund balances, end of year	<u>\$ 110,358</u>	<u>\$ 18,609</u>	<u>\$ 104,396</u>	<u>\$ 233,363</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS

Members of the Township Board
Montrose Charter Township
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Montrose Charter Township as of and for the year ended December 31, 2007, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated August 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montrose Charter Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America 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 controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. This issue was noted and reported in our audit comments last year. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township formally adopt, and implement written procedures and policies in the following areas:

POLICIES AND PROCEDURES - CONTINUED

- a. Fraud risk management program - We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve active searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.
- b. Code of conduct - We recommend the Township adopt a code of conduct. The code should include a policy on conflicts of interest and the Township should require employees and Board members to periodically make a declaration of compliance.
- c. Investment policy - During the course of our audit, it was noted that the Township has not amended their investment policy to address the reporting requirements of GASB Statement No. 40. Effective for the year ended December 31, 2005 GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Township's financial statement by GASB Statement No. 40. In the absence of a policy that addresses deposit and investment risks, the notes to the financial statements are required by generally accepted accounting principles to include a disclosure that such policies do not exist.

- d. Electronic funds transfer policy - During the course of the audit, it was noted that the Township had used electronic fund transfers to make payments but did not have the necessary electronic funds transfer policy required by the Michigan Public Act 738 of 2002. The Public Act requires such a policy to be in place prior to conducting these transactions. Therefore, this condition not only affects the Township's internal control over financial reporting, but it is also considered a significant deficiency related to compliance with Michigan Compiled Law.

We recommend that the Township adopt a formal electronic funds transfer policy as soon as possible to comply with the State of Michigan requirements.

UNFAVORABLE BUDGET VARIANCES

As noted in the financial statements, some of the activities and funds of the Township exceeded the amounts appropriated. The variances noted were in the General Fund and Special Revenue Funds.

Also, the Michigan Public Act 621 of 1978, as amended, provides that the Township adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Therefore, the lack of monitoring the financial activity of the Township in comparison to the formally adopted budgets resulting in unfavorable budget variances not only affects the Township's internal control over financial reporting, but it is also considered noncompliance with Michigan Compiled Law. Similar budgetary issues were noted and reported in our audit comments last year.

We recommend the Board be provided with monthly reports that enables them to evaluate the financial condition of the Township and monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

DOCUMENTING CONTROL PROCEDURES

During the course of our audit, it was noted that in the review stage of time reporting, department heads are not indicating their approval by signing off on the documents (i.e., timesheets). This issue was noted and reported in our audit comments last year. This control procedure is necessary to ensure that time reporting documents are being reviewed and approved by appropriate individuals.

Additionally, it was noted that during the receipting process, while a daily reconciliation of receipts to the money collected is being performed, the Treasurer is not signing or initialing the reconciliation indicating that the procedure has been completed. This issue was noted and reported in our audit comments last year.

DOCUMENTING CONTROL PROCEDURES - CONTINUED

We recommend the Township implement a process by which appropriate individuals in supervisory positions review employee timesheets and indicate their approval by signing or initialing the timesheets. We also recommend the Treasurer sign or initial daily receipt reconciliations to document that the procedure has been completed.

DOCUMENTATION FOR JOURNAL ENTRIES

During the course of our audit, it was noted that the Township does not maintain adequate documentation for journal entries. Journal entries are made with no documentation kept to verify the substance, accuracy, or purpose of the entry.

We recommend the Township maintain all documentation relating to journal entries.

PREPARATION OF FINANCIAL STATEMENTS

Effective for all audits of fiscal years ended December 31, 2006 and thereafter, Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Township prepares monthly financial reporting at the fund level. However, the annual audited financial statements for the year ended December 31, 2007 for the Township required significant audit adjustments.

The staff at Charter Township of Montrose understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

BANK RECONCILIATIONS

During the course of our audit, we noted that bank reconciliations were not completed on a timely basis by management. Internal control is a process - affected by an entity's board, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. The preparation of bank reconciliations is a significant part of the internal controls of the Township.

Internal control consists of five interrelated components:

- a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. *Risk assessment* is the entity's identification and analysis of relevant risk to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- d. *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

We recommend that bank reconciliations be completed on a monthly basis and that completed reconciliations be reviewed by management and tied to the computerized general ledger. The review should be documented with the reviewer's initials and date of review and be retained for audit purposes.

A material weakness is a significant deficiency, or a 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the following significant deficiency to be a material weakness:

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Material journal entries for the adjustment of accounts receivable, and deferred revenue were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Township's internal controls.

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters. Those instances are disclosed above under the headings: policies and procedures (investment and electronic funds transfer policies) and unfavorable budget variances.

We also noted the following Other Matter:

NEGATIVE UNRESERVED FUND BALANCE

During the course of our audit, it was noted that the Township had a fund that ended the year with a negative unreserved fund balance. Michigan Public Act 275 of 1980 provides that a governmental entity shall not have deficits in one or more of the unreserved fund balances.

Budgetary controls to limit expenditures and/or transfers were not made to alleviate deficits in these funds. The Township will be required to submit a deficit reduction plan to the State of Michigan for any funds having a deficit.

We recommend that the Township file a corrective action plan with the State of Michigan.

This report is intended solely for the information and use of management and members of the Board of Montrose Charter Township, others within the Township, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 22, 2008