

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Watersmeet	County Gogebic
Fiscal Year End 3/31/2007	Opinion Date 7/12/2007	Date Audit Report Submitted to State 9/22/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Roger J. Kolehmainen PC CPA		Telephone Number (906) 932-3600		
Street Address 1445 East Cloverland Drive		City Ironwood	State MI	Zip 49938
Authorizing CPA Signature 		Printed Name Roger J. Kolehmainen		License Number 1101011820 1617066

CONTENTS

Management's Discussion and Analysis (Unaudited)	2
Independent Auditor's Report	10
Basic Financial Statements:	
Government – Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet-General Fund	14
Reconciliation of the General Fund Balance Sheet with the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances-General Fund	16
Reconciliation of the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance with the Statement of Activities	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Fiduciary Fund:	
Statement of Fiduciary Net Assets	21
Notes to Basic Financial Statements	22
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	43
Other Financial Information	
Statement of Expenditures - Budget to Actual - General Fund	45
Supplemental Reports -	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	51

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

Year ended March 31, 2007

Management's Discussion and Analysis

This section of the Township of Watersmeet's (Township) annual financial report presents our discussion and analysis of the Township's financial performance during the year ended March 31, 2007. It is to be read in conjunction with the Township's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Government* and is intended to provide the financial results for the fiscal year ending March 31, 2007.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Township as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Township's assets and liabilities except fiduciary funds. All current year revenues and expenses are reported in the statement of activities. These are new statements that have not been required or provided in past years but are now required based on government auditing and accounting standards. The two statements report the governmental activities of the Township that include all services performed by the Township. These activities are funded mostly by State revenue sharing, property taxes and charges for services.

The statement of net assets, as stated previously, shows the Township's assets and liabilities. The corresponding balance between the amounts calculates the net assets or deficit of the Township. This statement measures the financial strength of the Township; the greater the net asset figure, the healthier the Township generally is. This shows if the Township will be able to fund their current obligations and shows what they have available for future use.

The statement of activities shows the current year change in net assets on revenue less expense basis. It generally shows the operating results for a given year of the Township. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Township. Any deficiency of revenues over expenditures results in a deficit for the year that in turn reduces the net assets (or increases a deficit) of the Township.

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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. This information may be useful in evaluating the Township'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. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains one governmental fund, which is the general fund. The Township adopts an annual budget for the general fund. To demonstrate compliance with their adopted budget, a budgetary comparison statement has been provided and is included in the "Required Supplemental Information" section of this report.

General fund data, comparison of actual costs to budgeted amounts per cost center is presented in the "Other Financial Information" section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has two proprietary fund types- enterprise funds. The enterprise funds of the Township are used to report the same functions as the business-type activities in the government-wide financial statements. The Water and Sewer Funds is presented in both the government-wide financial statements and the fund financial statements and is considered a major fund. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefits of parties outside the government. The fiduciary fund for the Township is the Tax Collection Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements.

Notes to Financial Statements

Notes to the financial statements are included in the financial statements, and provide additional information that is essential for a full understanding of the data provide in the government-wide and the fund financial statements.

Government-wide Financial Statements-Condensed Financial Information

Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below as of March 31, 2007 and 2006.

	Governmental	<u>March 31, 2007</u> Business-Type	
ASSETS	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Current Assets:			
Cash and equivalents	\$605,541	\$129,468	\$735,009
Other assets	78,035	53,444	131,479
Non-current Assets			
Restricted cash		59,851	59,851
Capital Assets, net	955,904	1,046,763	2,002,667
TOTAL ASSETS	\$1,639,480	\$1,289,526	\$2,929,006

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

	<u>March 31, 2007</u>		
	Governmental	Business-Type	Total
LIABILITIES	<u>Activities</u>	<u>Activities</u>	
Current Liabilities	\$128,291	\$79,523	\$207,814
Non-current Liabilities	81,779	282,000	363,779
TOTAL LIABILITIES	210,070	361,523	571,593
NET ASSETS			
Investment in capital assets net of related debt	884,858	688,849	1,573,707
Restricted		59,851	59,851
Unrestricted	544,552	179,303	723,855
TOTAL NET ASSETS	1,429,410	928,003	2,357,413
TOTAL LIABILITIES AND NET ASSETS	\$1,639,480	\$1,289,526	\$2,929,006

For governmental activities, net assets increased by \$146,553 during the fiscal year. For business-type activities, net assets decreased by \$5,820 during the year.

	<u>March 31, 2006</u>		
	Governmental	Business-Type	Total
ASSETS	<u>Activities</u>	<u>Activities</u>	
Current Assets:			
Cash and equivalents	\$556,857	\$119,912	\$676,769
Other assets	69,008	73,679	142,687
Non-current Assets			
Restricted cash		51,323	51,323
Capital Assets, net	912,973	989,170	1,902,143
TOTAL ASSETS	\$1,538,838	\$1,234,084	\$2,772,922
LIABILITIES			
Current Liabilities	\$157,118	\$12,261	\$169,379
Non-current Liabilities	98,863	288,000	386,863
TOTAL LIABILITIES	255,981	300,261	556,242
NET ASSETS			
Investment in capital assets net of related debt	816,002	695,170	1,511,172
Restricted		51,323	51,323
Unrestricted	466,855	187,330	654,185
TOTAL NET ASSETS	1,282,857	933,823	2,216,680
TOTAL LIABILITIES AND NET ASSETS	\$1,538,838	\$1,234,084	\$2,772,922

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

Statement of Activities

The results of operations for Watersmeet Township as a whole are reported in the statement of activities. This statement reports the changes in net assets for both governmental and business-type activities. The following is a condensed statement of activities for the years ended March 31, 2007 and 2006.

	Governmental	<u>March 31, 2007</u> Business-Type	Total
	<u>Activities</u>	<u>Activities</u>	
REVENUES			
Program Revenues:			
Charges for services	\$107,262	\$141,914	\$249,176
Operating grants/contributions	186,000	3,500	189,500
General Revenue:			
Property taxes	451,786		451,786
State and federal grants	144,773		144,773
Other	163,431	3,120	166,551
Total Revenue	<u>\$1,053,252</u>	<u>\$148,534</u>	<u>\$1,201,786</u>
EXPENSES:			
Program Expenses:			
Governmental activities	\$906,699		\$906,699
Business-type activities		\$154,354	154,354
Total Expenses	<u>\$906,699</u>	<u>\$154,354</u>	<u>\$1,061,053</u>
Increase (Decrease) in Net Assets	\$146,553	(\$5,820)	\$140,733
Net Assets, Beginning of Year	1,282,857	933,823	2,216,680
Net Assets, End of Year	<u>\$1,429,410</u>	<u>\$928,003</u>	<u>\$2,357,413</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

	Governmental Activities	<u>March 31, 2006</u> Business-Type Activities	<u>Total</u>
REVENUES			
Program Revenue:			
Charges for services	\$141,121	\$130,453	\$271,574
Operating grants/contributions	126,778	59,500	186,278
General Revenue:			
Property taxes	469,128		469,128
State and federal grants	179,437		179,437
Other	76,902	2,250	79,152
Transfers from other funds			
Total Revenue	<u>\$993,366</u>	<u>\$192,203</u>	<u>\$1,185,569</u>
 Program Expenses:			
Governmental activities	\$813,384		\$813,384
Business-type activities		\$172,989	172,989
Total Expenses	<u>\$813,384</u>	<u>\$172,989</u>	<u>\$986,373</u>
 Increase (Decrease) in Net Assets	\$179,982	\$19,214	\$199,196
Net Assets, Beginning of Year	1,102,875	914,609	2,017,484
Net Assets, End of Year	<u>\$1,282,857</u>	<u>\$933,823</u>	<u>\$2,216,680</u>

Governmental Activities

Property taxes, tax administration fees and other tax revenues comprise \$520,243 or approximately 49 percent of total governmental revenues, whereas, gaming revenues and donations amounted to \$329,375 (31%). The Township reported \$144,773 (14%) in state and federal grant revenues and \$38,805 for services provided

The Township expended \$906,699 on governmental programs and services

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

Business-Type Activities

Business-type activities decreased the Township's net assets by \$5,820. Charges for services rendered were \$154,354. Additional revenues of interest income and grant revenues of \$3,120 and \$3,500, respectively, were received to offset the reported expenditures.

Financial Analysis of Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirement.

Governmental Funds

The focus of the Township's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. The Township's general fund balance sheet reported an unreserved fund balances of \$562,785, which is available for spending at the government's discretion.

Proprietary Fund

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds as of March 31, 2007 were \$33,334 and \$145,969, respectively.

Capital Assets and Debt Administration

The Township's investment in capital assets, net of accumulated depreciation for its governmental and business-type activities as of March 31, 2007 was \$2,002,667.

Major capital expenditures for governmental funds were for Township's infrastructure right of way improvements on County Roads, which required a local match of \$32,811; snowmobile and truck purchases amounting to \$34,555; equipment purchases of \$8,599; and building improvements of \$31,495. The Business-type funds noted major improvements undertaken to the present utility system amounting to \$105,095.

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET
(Unaudited)

The Township had \$377,279 of long-term liabilities at March 31, 2007 of which \$13,500 is reclassified as a short term liability. This amount consists (see Note L, to Financial Statements) of \$288,000 in revenue bond payable; USDA Rural Development note payable outstanding of \$71,046; and accrued vacation and sick leave benefits of \$18,233.

The Township has issued \$950,000 in Water Supply and Sewage Disposal System Revenue Bonds in 2007 in financing utility system improvements. The Bonds will be repaid over a twenty year period at an interest rate of 2.125% per annum. No loan proceeds were received during the audit period.

Other Economic Factors and Next Years Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state cuts will likely translate into strategic reductions of Township expenses to maintain a sound budget. Despite the poor outlook of the state's budget, the Township will continue to strive to provide good social and cultural conditions that support healthy families and maintain a safe and clean community in which to live.

Request for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Township Supervisor
Township of Watersmeet
PO Box 306
Watersmeet, MI 49969

Roger J. Kolehmainen CPA PC
1445 East Cloverland Drive
Ironwood, MI 49938
(906) 932-3600

INDEPENDENT AUDITOR'S REPORT

Supervisor and Members of the Board
Township of Watersmeet
Watersmeet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Township of Watersmeet as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the audit provides a reasonable basis in our opinion.

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, and the aggregate remaining fund information of the Township of Watersmeet as of March 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated July 12, 2007, on our consideration of Township of Watersmeet's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 9 are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Watersmeet's basic financial statements. The accompanying "Other Financial Information" is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 financial statements taken as a whole.



Roger J. Kolehmainen PC
Certified Public Accountant

Ironwood, Michigan
July 12, 2007

TOWNSHIP OF WATERSMEET
STATEMENT OF NET ASSETS

March 31, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business –</u> <u>Type Activities</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$605,541	\$129,468	\$735,009
Accounts receivable-net	26,820	26,634	53,454
Delinquent taxes receivable	42,598		42,598
Due from other funds	1,868	24,485	26,353
Deferred charges	6,749	2,325	9,074
TOTAL CURRENT ASSETS	<u>\$683,576</u>	<u>\$182,912</u>	<u>\$866,488</u>
NON-CURRENT ASSETS			
Restricted cash		59,851	59,851
Capital assets	1,451,657	2,110,174	3,561,831
Accumulated depreciation	(495,753)	(1,063,411)	(1,559,164)
TOTAL NON-CURRENT ASSETS	<u>955,904</u>	<u>1,106,614</u>	<u>2,062,518</u>
TOTAL ASSETS	<u>\$1,639,480</u>	<u>\$1,289,526</u>	<u>\$2,929,006</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$73,379	\$2,139	\$75,518
Accrued wages/leave benefits	4,927		4,927
Accounts payable-construction		69,914	69,914
Accrued interest payable		1,470	1,470
Due to other funds	24,485		24,485
Deferred revenues	18,000		18,000
Current maturity on long-term debt	7,500	6,000	13,500
TOTAL CURRENT LIABILITIES	<u>\$128,291</u>	<u>\$79,523</u>	<u>\$207,814</u>
NON-CURRENT LIABILITIES			
Note payable	71,046		71,046
Bonds payable		288,000	288,000
Accrued compensated absences	18,233		18,233
Current maturity on long-term debt	(7,500)	(6,000)	(13,500)
TOTAL NON-CURRENT LIABILITIES	<u>81,779</u>	<u>282,000</u>	<u>363,779</u>
TOTAL LIABILITES	<u>\$210,070</u>	<u>\$361,523</u>	<u>\$571,593</u>
NET ASSETS			
Investment in capital assets, net of related debt	\$884,858	\$688,849	\$1,573,707
Reserved		59,851	59,851
Unreserved	544,552	179,303	723,855
TOTAL NET ASSETS	<u>\$1,429,410</u>	<u>\$928,003</u>	<u>\$2,357,413</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$1,639,480</u>	<u>\$1,289,526</u>	<u>\$2,929,006</u>

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

TOWNSHIP OF WATERSMEET
STATEMENT OF ACTIVITIES
Year Ended March 31, 2007

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue</u>
Governmental Activities			
General government	\$360,520	\$73,757	(\$286,763)
Public safety	215,971	130,003	(85,968)
Public works	224,214	89,502	(134,712)
Recreation and culture	41,866		(41,866)
Other	64,128		(64,128)
Total Governmental Activities	<u>\$906,699</u>	<u>\$293,262</u>	<u>(\$613,437)</u>
Business-type Activities			
Water	\$52,762	\$51,955	(807)
Sewer	101,592	89,959	(11,633)
Total Business – type Activities	<u>\$154,354</u>	<u>\$141,914</u>	<u>(\$12,440)</u>
Total	<u>\$1,061,053</u>	<u>\$435,176</u>	<u>(\$625,877)</u>

Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business – Type Activities</u>	<u>Total</u>
Net (Expense) Revenue	(\$613,437)	(\$12,440)	(\$625,877)
General Revenues:			
Property taxes	451,786		451,786
State and Federal shared revenues	144,773	3,500	148,273
Investment income	20,609	3,120	23,729
Gaming revenues	139,631		139,631
Other income	3,191		3,191
Total General Revenues	<u>\$759,990</u>	<u>\$6,620</u>	<u>\$766,610</u>
Changes in Net Assets	\$146,553	(\$5,820)	\$140,733
Net Assets at Beginning of Year	1,282,857	933,823	2,216,680
Net Assets at End of Year	<u>\$1,429,410</u>	<u>\$928,003</u>	<u>\$2,357,413</u>

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

TOWNSHIP OF WATERSMEET
BALANCE SHEET
GENERAL FUND

March 31, 2007

ASSETS

Cash and cash equivalents	\$605,541
Accounts receivable-net	26,820
Delinquent taxes receivable	42,598
Due from other funds	1,868
Deferred charges	6,749
TOTAL ASSETS	<u>\$683,576</u>

LIABILITIES

Current Liabilities	
Accounts payable	\$73,379
Accrued wages/leave benefits	4,927
Due to other funds	24,485
Deferred revenues	18,000
TOTAL LIABILITIES	<u>\$120,791</u>

FUND EQUITY

Unreserved	562,785
TOTAL LIABILITIES AND FUND BALANCES	<u>\$683,576</u>

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

RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

TOWNSHIP OF WATERSMEET
March 31, 2007

Total fund equity of governmental activities		\$562,785
Amounts reported for governmental activities in the statement of Net Assets are different because:		
Additions:		
Capital assets used in governmental activities are not financial Resources and therefore are not reported as assets in Governmental funds.		
Cost of capital assets	1,451,657	
Accumulated depreciation	<u>(495,753)</u>	955,904
Reductions:		
Long-term liabilities are not due and payable in the current Period and therefore not reported as liabilities in the funds.		
Note payable	(71,046)	
Accumulated absences	<u>(18,233)</u>	<u>(89,279)</u>
Total net assets of governmental activities		<u>\$1,429,410</u>

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

TOWNSHIP OF WATERSMEET
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GENERAL FUND
Year ended March 31, 2007

REVENUES:	
Taxes	\$520,243
Licenses and permits	24,003
Rentals	5,300
Federal shared revenues	36,968
State shared revenues	107,805
Class III gaming revenues	325,631
Charges for services	6,626
Interest	20,609
Other revenue	6,067
	\$1,053,252
EXPENDITURES	
Legislative	\$68,986
General government	294,485
Public safety	195,037
Public works	286,829
Recreation and culture	27,038
Other	64,128
Debt service	30,000
	\$966,503
EXCESS OF REVENUES (EXPENDITURES)	86,749
OTHER FINANCING SOURCES (USES)	
Transfers to/from other funds	_____
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	\$86,749
Fund Balance at 3/31/2006	476,036
FUND BALANCE MARCH 31, 2007	\$562,785

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
 RECONCILIATION OF THE GENERAL FUND STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE
 WITH THE STATEMENT OF ACTIVITIES

March 31, 2007

Net change in fund balances – Total Governmental Funds	\$86,749
--	----------

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	107,460
Depreciation expense	(64,529)

Some expenses reported in the Statement of Activities such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Repayment of bond principal	25,925		
Compensated absences earned not paid	(9,052)		
Change in Net Assets of Governmental Activities	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;"></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$146,553</td> </tr> </table>		\$146,553
	\$146,553		

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
STATEMENT OF NET ASSETS-PROPRIETARY FUNDS
March 31, 2007

	Business type Activities- Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
	<u>Fund</u>	<u>Funds</u>	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$16,429	\$113,039	\$129,468
Accounts receivable-net	8,427	18,207	26,634
Due from other funds	8,194	16,291	24,485
Deferred charges	902	1,423	2,325
Total Current Assets	33,952	148,960	182,912
RESTRICTED ASSETS:			
Cash	16,648	43,203	59,851
Total Restricted Assets	16,648	43,203	59,851
NONCURRENT ASSETS:			
Property, plant and equipment	614,988	1,495,186	2,110,174
Accumulated depreciation	(301,677)	(761,734)	(1,063,411)
Total Non-Current Assets	313,311	733,452	1,046,763
TOTAL ASSETS	\$363,911	\$925,615	\$1,289,526
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$618	\$1,521	\$2,139
Accounts payable-construction	69,914		69,914
Accrued interest payable		1,470	1,470
Current maturity on long-term debt		6,000	6,000
Total Current Liabilities	70,532	8,991	79,523
LONG TERM LIABILITIES			
Revenue bonds payable		288,000	288,000
Less current maturity on long-term debt		(6,000)	(6,000)
Total Long-term Liabilities		282,000	282,000
TOTAL LIABILITIES	70,532	290,991	361,523
NET ASSETS			
Investment in capital assets, net of related debt	243,397	445,452	688,849
Reserved	16,648	43,203	59,851
Unreserved	33,334	145,969	179,303
TOTAL NET ASSETS	293,379	634,624	928,003
TOTAL LIABILITIES & NET ASSETS	\$363,911	\$925,615	\$1,289,526

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

TOWNSHIP OF WATERSMEET
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS TYPE
Year ended March 31, 2007

	<u>Water Fund</u>	<u>Sewer Funds</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$51,955	\$89,959	\$141,914
Total Operating Revenues	51,955	89,959	141,914
Operating expenses:			
Personnel services	11,947	24,859	36,806
Purchase of services	17,348	11,442	28,790
Materials and supplies	11,410	9,397	20,807
Provision for depreciation	12,057	37,948	50,005
Total Operating Expenses	52,762	83,646	136,408
Operating income (loss)	(807)	6,313	5,506
Non-operating revenues (expenses)			
Interest income	1,120	2,000	3,120
State grant proceeds	3,500		3,500
Debt service – interest and fees		(17,946)	(17,946)
	4,620	(15,946)	(11,326)
Change in Net Assets	3,813	(9,633)	(5,820)
Net Assets - March 31, 2006	289,566	644,257	933,823
NET ASSETS – MARCH 31, 2007	\$293,379	\$634,624	\$928,003

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

TOWNSHIP OF WATERSMEET
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS TYPES
Year ended March 31, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$53,608	\$85,649	\$139,257
Payments to employees and suppliers for goods and services	(29,879)	(36,285)	(66,164)
Net Cash Provided (Used) by Operating Activities	<u>23,729</u>	<u>49,364</u>	<u>73,093</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Grants received	3,500		3,500
Purchase of capital assets	(106,346)	(1,251)	(107,597)
Contractor's payable	69,914		69,914
Principal paid on bonds payable		(6,000)	(6,000)
Interest paid on bonds payable		(17,946)	(17,946)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(32,932)</u>	<u>(25,197)</u>	<u>(58,129)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	1,120	2,000	3,120
Net Cash Provided (Used) by Investing Activities	<u>1,120</u>	<u>2,000</u>	<u>3,120</u>
Net Increase (Decrease) in Cash	<u>(8,083)</u>	<u>26,167</u>	<u>18,084</u>
Cash and Cash Equivalents, March 31, 2006	41,160	130,075	171,235
CASH AND CASH EQUIVALENTS, March 31, 2007	<u>\$33,077</u>	<u>\$156,242</u>	<u>\$189,319</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	(\$807)	\$6,313	\$5,506
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:			
Depreciation/amortization	12,057	37,948	50,005
Change in assets and liabilities:			
Accounts receivable	(1,847)	(4,310)	(6,157)
Due from other funds	16,934	10,170	27,104
Deferred charges	(6)	(706)	(712)
Accounts payable	(2,602)	11	(2,591)
Accrued interest payable		(62)	(62)
Net Cash Provided by Operating Activities	<u>\$23,729</u>	<u>\$49,364</u>	<u>\$73,093</u>

Noncash investing, capital and financing activities: None

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
Year ended March 31, 2007

ASSETS	
Cash and cash equivalents	\$5,663
TOTAL ASSETS	<u>\$5,663</u>
LIABILITIES	
Due to other funds	\$1,868
Due to others	3,795
TOTAL LIABILITIES	<u>\$5,663</u>

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Township of Watersmeet operates under an elected Board of Trustees, which includes a supervisor, clerk and treasurer. The Township provides to its residents, services in many areas including public safety, highways and streets, sanitation, culture and recreation, planning and zoning, and general administrative services.

The Township complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Township the option of electing to apply FASB pronouncements issued after November 30, 1989. The Township has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the Township financial-reporting entity. The criteria established for determining the various governmental organizations to be included as component units in the Township's financial statements include oversight responsibility, scope of public service and special financing relationships.

On this basis, the financial statements of the local school district and volunteer fire association are not included as component units in the financial statements of the Township. Educational services are provided to citizens through the local school district, which is a separate governmental entity. The Watersmeet Township Volunteer Firefighters' Association is organized as a separate nonprofit entity.

Basis of Presentation

The Statement of Net Assets and Statement of Activities display information about the reporting as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds in that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

General Fund - is the primary operating fund of the Township and always classified as a major fund. This fund is used to account for all financial resources except those legally or administratively required to be accounted for in another fund. There are no non-major funds.

Proprietary Fund Types

Enterprise Funds – Water Supply and Sewage Disposal System Funds are used to account for operations of the water and the sewage systems in a manner similar to private business enterprises, where the intent of the Township is that the expenses, including depreciation, of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Type (Not included in government-wide statements)

Agency Funds – The Tax Collection Fund is used to account for assets held by the Township in a trustee capacity or as an agent for other governments and/or other funds. This fund is custodial in nature and does not involve measurement of results of operations.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

MAJOR AND NONMAJOR FUNDS

The governmental and enterprise funds of the Township are classified as major funds as follows:

<u>Fund</u>	<u>Brief Description</u>
<u>MAJOR FUNDS</u>	
1. General	See above for description.
2. Water	Account for revenues and expenses of providing Water services to the public.
3. Sewer	Account for revenues and expenses of providing Sewer services to the public.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end except for State Shared Revenues collected after sixty days which are earmarked for the period under audit. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the Township. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statements. Exceptions to this general rule are charges between the government’s water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. See Note G for details of interfund transactions, including receivables and payable at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes and refunds. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include service revenue accruals since they are usually both measurable and available. Interest and investment earnings are recorded when accrued. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. No allowances for uncollectible accounts receivable are recognized since any delinquencies can be placed upon the tax roll.

Inventories

Inventories of Governmental Fund and Proprietary Fund types are considered to be immaterial and are not recognized. All purchases of supplies are expensed upon purchase.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with initial individual costs of \$9,000 and \$1,000 for capital betterments and equipment additions. All fixed assets are valued at historical costs or estimated cost, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Capital assets for proprietary funds are recognized on assets costing over \$250 and with a useful life of over three years. Infrastructure improvements have been capitalized as of April 1, 2004 when such capital improvements exceeded \$5,000.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets for governmental funds. Depreciation has been provided over the useful lives using the straight-line method of depreciation. The estimated useful lives for each major class of depreciable fixed assets are as follows:

Land	Not depreciated
Buildings and improvements	25-50 Years
Utility Systems	40 Years
Office furniture and fixtures	5-10 Years
Fire equipment	20 Years
Other equipment	10 Years
Infrastructure (ROW)	20 Years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Reserved Assets

Reserved assets include cash and investments that are restricted as to their use. The primary restricted assets are related to cash accounts established to be used for capital projects and debt retirement.

Long-term Debt and Compensated Absences

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of revenue bonds payable; note payable to USDA Rural Development and accrued compensated absences. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Township employees covered by a union agreement are entitled to compensate annual, personal and sick pay based upon their length of employment. See Note K.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Scope of Reporting Entity

In accordance with the provisions of the Governmental Accounting Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and component units that are controlled by or dependent on the Township's executive or legislative branches.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the ensuing December 1. The Township bills and collects its own property taxes and also collects current rolls for the County and School District. The Township records delinquent real property taxes as revenue upon levy; since the County will sell tax notes and remit monies to the various units of government shortly after year end.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Budgets

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

1. Prior to April 1, the proposed budget for each budgetary fund is submitted to the Township Board for consideration. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held at the annual Township Board meeting to obtain taxpayers comments.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted prior to the fiscal year by the majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. Any revisions to the budgeted amounts must be approved by a majority vote of the Township Board.
7. Budget appropriations lapse at the end of each fiscal year.
8. Budgeted amounts presented in the financial statements are as originally adopted and amended by the Township Board.

Budgets are not required for the operations of the Proprietary Fund types.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Proprietary Fund Type consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Interest Expense

Interest on bonded indebtedness is recorded as expenditure as accrued.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Interest Receivables

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and/or services. It also includes revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service

Proprietary Fund – By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

TOWNSHIP OF WATERSMEET
 NOTES TO FINANCIAL STATEMENTS
 March 31, 2007

NOTE B - CASH

Statutes authorize the Township to deposit cash in financial institutions covered by federal depository insurance and to invest in obligations of the United States Treasury, agencies and instrumentalities; commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services: United States government or agency obligation repurchases agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks. All accounts are in the name of the Township and on deposit with one bank. They are recorded in the Township records at cost. Interest is recorded when the interest is accrued.

Following is a summary of the carrying amount of cash for all funds as of March 31, 2007:

Cash deposited in banks insured by federal depository insurance	\$100,000
Cash on hand	11,167
Funds in excess of insurance limits (uncollaterized)	730,134
Less outstanding items	<u>(40,778)</u>
Total	<u>\$800,523</u>

The restricted assets consist of cash accounts restricted as follows:

Sewer Disposal System Fund:	
Bond Reserve Account	\$38,539
Replacement Fund	<u>4,664</u>
Total	\$43,203
Water Utility Fund:	
Capital Reserve Account	<u>16,648</u>
Totals	<u>\$59,851</u>

NOTE C - RECEIVABLES

Accounts receivable and related allowances for uncollectible as of March 31, 2007 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General Fund	\$69,418	\$	\$69,418
Water Fund	\$ 8,427	\$	\$ 8,427
Sewer Fund	\$18,207	\$	\$18,207

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

General Fund - generally consists of delinquent real property tax monies; tax administrative fees; state shared revenues; and miscellaneous charges.

Proprietary Funds - customer unpaid balances and \$3,500 in sewer grant reimbursements. Trade accounts receivable were comprised of the following at March 31, 2007.

Customer billing for the month ended March 2007	\$11,168
Delinquent billings	<u>11,967</u>
Total	<u>\$23,135</u>

Delinquent account balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible and accordingly, there is no allowance for doubtful accounts.

NOTE D - SUMMARY OF TAX ROLL

Following is a summary of the 2006 property tax roll:

	<u>Levy</u>	<u>Taxes Returned Delinquent</u>	<u>Net Collected</u>
Real/Personal Property taxes:			
County	\$1,465,850	\$114,062	\$1,351,788
School	2,219,905	114,446	2,105,459
Township	448,747	43,097	405,650
Intermediate School District	429,752	22,597	407,155
State Education Tax	782,481	40,548	741,933
Totals:	<u>\$5,346,735</u>	<u>\$334,750</u>	<u>\$5,011,985</u>

Taxable valuation:

Homestead	\$32,755,053
Non-homestead	<u>97,661,901</u>
	<u>\$130,416,954</u>

Costs incurred for administrative costs in assessing and collecting property taxes have not been evaluated in ensuring that fees charged other taxing units are reasonable.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE E - DELINQUENT TAX RECEIVABLE

The County of Gogebic purchases the delinquent real property taxes of the Township for the 2006 levied. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these delinquent taxes shortly after year end. The delinquent real property taxes are recorded as current year tax revenues.

NOTE F - PUBLIC ACT 275 OF 1980 DISCLOSURE

The Township had no deficits in any funds as of March 31, 2007, which would require specific disclosure.

NOTE G - INTERFUND RECEIVABLES AND PAYABLE

The amounts of interfund receivables and payable at March 31, 2007, are as follows:

<u>Funds</u>	<u>Interfund Receivable</u>	<u>Funds</u>	<u>Interfund Payable</u>
Water Fund-		General Fund-	
General Fund	\$8,194	Water Fund	\$8,194
Sewer Fund-		Sewer Fund	16,291
General Fund	16,291	Tax Fund-	
General Fund-		General Fund	1,868
Tax Fund	1,868		
Totals	\$26,353	Totals	\$26,353

NOTE H - CAPITAL ASSETS

A summary of changes in general fixed assets follow:

Governmental Activities	Balance at			Balance at
	<u>March 31, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2007</u>
Capital Assets not Depreciated	\$11,883	\$	\$	\$11,883
Land				
Capital Assets being Depreciated				
Buildings and improvements	576,384	31,495		607,879
Fire equipment	475,976	11,552		487,528
Office furniture and equipment	45,416	31,602		77,018
Infrastructure-roads	234,538	32,811		267,349
Subtotals	\$1,332,314	\$107,460	\$	\$1,439,774
Less Accumulated Depreciation	(431,224)	(64,529)		(495,753)
Net Capital Assets Being Depreciated	\$901,090	\$42,931		\$944,021
Net	\$912,973	\$42,931	\$	\$955,904

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

General Government	\$14,828	Public Safety	\$32,486
Public Works	\$15,524	Recreation/Parks	\$1,691

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE I - ENTERPRISE FUNDS – CAPITAL ASSETS

A summary of proprietary fund type property, plant and equipment at March 31, 2007 follows:

Business-Type Activities	Water Supply Fund:			Balance at <u>March 31, 2007</u>
	Balance at <u>March 31, 2006</u>	Additions	Deletions	
Capital Assets not Depreciated				
Land and land rights	\$3,387	\$	\$	\$3,387
Capital Assets being Depreciated				
Wells, houses and appurtenances	143,854			143,854
Water storage tank	29,517			29,517
Water mains	280,609			280,609
Office equipment		1,251		1,251
Construction in progress	51,275	105,095		156,370
Subtotals	\$505,255	\$106,346	\$	\$611,601
Less Accumulated Depreciation	(289,620)	(12,057)		(301,677)
Net Capital Assets Being Depreciated	\$215,635	\$94,289		\$309,924
Net	\$219,022	\$94,289	\$	\$313,311

Depreciation is computed using the straight-line method.

Business-Type Activities	Sewage Disposal System Funds:			Balance at <u>March 31, 2007</u>
	Balance at <u>March 31, 2006</u>	Additions	Deletions	
Capital assets not depreciated				
Land	\$800	\$	\$	\$800
Capital Assets being Depreciated				
Sewer collection mains	160,986			160,986
Waste water treatment facilities	1,322,305			1,322,305
Office equipment	9,844	1,251		11,095
Subtotals	\$1,493,135	\$1,251	\$	\$1,494,386
Less Accumulated Depreciation	(723,787)	(37,948)		(761,735)
	\$769,348	(\$36,697)		\$732,651
Net	\$770,148	(\$36,697)	\$	\$733,451

Depreciation is computed using the straight-line method.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE J - ACCOUNTS PAYABLE

The General Fund's accounts payable were for normal expenditures; ambulance service contractual commitments and potential payback on a tax tribunal court case as discussed in Note Q.

The Proprietary Fund account payable balances were for normal expenditures at year-end with the exception of engineering fees pertaining to an improved water system.

NOTE K - COMPENSATED ABSENCES

Employees are covered under a collective bargaining agreement. An employee shall be entitled to five days of vacation after 1 year of complete service. After three years of completed employment, the employee earns 10 vacation days. After five years of completed service, the employee shall be entitled to 15 days. After 15 years of service, the employee will receive 1 day per year, with a maximum of 20 days per year. Furthermore, each employee shall be entitled to 2 personal days per year. Four employees had earned \$7,233 in accrued benefits as of March 31, 2007 and are recognized in the Statement of Net Assets as accrued compensated absences. In addition, Township employees are entitled to compensate sick pay based upon length of employment. Compensated absences accumulate at 5 ½ hours for each month of service and are accrued when they are earned. Unused sick leave may be accumulated for a maximum of 45 days. If an employee has 10 years of more of service and retires, the employee will be paid at 100% of their prevailing rate of pay for all unused sick leave. Otherwise, no payment will be made for unused sick leave upon termination of employment. Four employees had earned \$11,000 in accrued sick benefits as of March 31, 2007 and are reflected in the Statement of Net Assets as accrued compensated absences.

NOTE L - LONG-TERM DEBT

A summary of the changes in long-term debt for the year ended March 31, 2007, is as follows:

	<u>Balance at March 31, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at March 31, 2007</u>
Notes payable	\$96,971	\$	\$25,925	\$71,046
Revenue bond payable	294,000		6,000	288,000
Compensated absences	9,181	9,052		18,233
	<u>\$400,152</u>	<u>\$9,052</u>	<u>\$31,925</u>	<u>\$377,279</u>

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Notes payable

On April 11, 2003, the Township borrowed \$140,000 from USDA Rural Development to finance the purchase of a fire truck. The note bears an interest rate of 4.5% and is being amortized over a 15-year period. During the year ended March 31, 2007, the Township paid principal payments in excess of the USDA payment schedule.

Debt service charges until maturity are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$7,500	\$3,197	\$10,697
2009	7,500	2,860	10,360
2010	8,500	2,522	11,022
2011	9,500	2,140	11,640
2012	10,000	1,712	11,712
2013	10,000	1,262	11,262
2014	11,000	812	11,812
2015	7,046	317	7,363
2016			
2017			
2018			
	\$71,046	\$14,822	\$85,868

Water Supply and Sewage Disposal System Junior Lien Revenue Bond

On March 1, 1988, the Township issued \$336,000 in Water Supply and Sewage Disposal System Junior Lien Revenue Bond to finance the cost of acquiring and constructing the sewage system. The bond consists of one single fully-registered nonconvertible bond of \$336,000 and was purchased by Rural Economic and Community Development (formerly Farmers Home Administration). The bond bear an interest rate of 6 1/8 % per annum, which is payable semi-annually on March 1 and September 1, and principal is payable each March 1 until maturity in the year 2028. Principal and interest are payable from the net revenues derived from operations of the sewage system.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

At March 31, 2007, the bond principal and interest payments were current. The principal balance outstanding of

<u>Year ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$6,000	\$17,640	\$23,640
2009	7,000	17,273	24,273
2010	7,000	16,844	23,844
2011	8,000	16,415	24,415
2012	8,000	15,925	23,925
2013	9,000	15,435	24,435
2014	9,000	14,884	23,884
2015	10,000	14,333	24,333
2016	11,000	13,720	24,720
2017	12,000	13,046	25,046
2018	13,000	12,311	25,311
2019	14,000	11,515	25,515
2020	15,000	10,658	25,658
2021	16,000	9,739	25,739
2022	17,000	8,759	25,759
2023	18,000	7,718	25,718
2024	19,000	6,615	25,615
2025	20,000	5,451	25,451
2026	22,000	4,226	26,226
2027	22,000	2,879	24,879
2028	25,000	1,531	26,531
Totals	\$288,000	\$236,917	\$524,917

On March 29, 2007, the Township issued \$950,000 in Water Supply and Sewage Disposal System Junior Lien Revenue Bond to finance the cost of acquiring and constructing of additions, extensions, replacements and improvements to the Water Supply and Sewage Disposal System. The bond consists of one single fully-registered nonconvertible bond of \$950,000 and was purchased by State of Michigan, Department of Environmental Quality. The bond bear an interest rate of 2.125 % per annum, which is payable semi-annually on October 1 and April 1, and principal is payable each October 1 until maturity in the year 2027. Principal and interest are payable from the net revenues derived from operations of the utility system. No bond proceeds nor advances were received as of March 31, 2007.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE M - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township provides water and sewage services through two enterprise funds. Segment information as of March 31, 2007, follows:

	<u>Water Supply Fund</u>	<u>Sewage System Fund</u>	<u>Totals</u>
Operating revenues	\$51,955	\$89,959	\$141,914
Total operating expenses less depreciation	\$40,705	\$45,698	\$86,403
Depreciation expense	\$12,057	\$37,948	\$50,005
Operating income(loss)	(\$807)	\$6,313	\$5,506
Operating transfers			
Non-operating income and expenses	\$4,620	(\$15,946)	(\$11,326)
Increase (decrease) in capital assets	\$106,346	\$1,251	\$107,597
Long term debt		\$288,000	\$288,000
Unrestricted net assets	\$33,334	\$145,969	\$179,303

NOTE N – PENSION PLAN

All employees and elected officials of the Township are eligible to be covered by a simplified employee pension plan administered by American Express Financial Advisors, Inc. The plan is a defined contribution plan covering all employees who are at least 21 years old and who have performed services for the Township and have received more than \$450 in compensation. Certain employees of the Township, such as Board Members and Union Employees, have been allowed to participate in the Plan. There are neither written plan amendments nor employee waivers on file to exclude other employees from participation.

The Township contributes ten percent of each employee's annual wages after adjustments on Board Members and Union Employees. The SEP Pension Plan allows for contributions to be based upon W-2 wages with no adjustments. Employees do not make contributions to the Plan. All participants are fully vested immediately.

The Township made contributions to the Plan of \$18,239 for the year ended March 31, 2007, whereas, the Township's payroll costs for the same time period amounted to \$288,810.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE O - RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$3,000,000 per occurrence and a \$5,000,000 aggregate limit, with no deductible amount, and wrongful acts coverage with a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2007, will not materially affect the financial condition of the Township with the exception as discussed in Note Q. Therefore, the financial statements contain no additional provisions for estimated claims besides as disclosed in Note Q. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE P – STATE CONSTRUCTION CODE ACT INFORMATION

During the year ended March 31, 2007, the Township collected construction code service fees of \$16,840 and spent \$26,528 for enforcing the code. Because the fee structure is not intended to recover the full cost of enforcement and the Township has the ability to track the full costs and revenues, a separate fund has not been created to account for these monies. In prior years, the Township spent more for enforcing the code than it collected in fees.

NOTE Q – TAX TRIBUNAL AND PROPERTY USE CASES

The Township has cases pending before the Michigan Tax Tribunal for alleged excessive tax valuations. These cases are being held in abeyance and the state tax commission has been added as a party respondent. One tax appeal case proposed settlement was presented recently to the Township Board for acceptance. The Petitioner, in conjunction with the Michigan Tax Tribunal, has proposed lower assessment factors based upon the income approach for personal property for the tax years 2003 through 2007. The Township in calculation their respective amount payable for the tax years 2003 – 2006 determined that \$10,709 would be payable if the Board was to accept the proposed settlement. The Township Board is determining if there is sufficient support from other

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

taxing units and sufficient basis to challenge the settlement as presented in minimizing the potential payback. Since the settlement amount can readily be determined, the General Fund, Balance Sheet and Statement of Net Assets Financial Reports have been adjusted in reflecting the potential payback amount of \$10,709 (\$3,029 for 2006 tax levy) pending future Board action.

The Township is also involved in a zoning lawsuit and a vendor claim for unpaid disposal services. The Township does not believe an adverse outcome is likely and has therefore not made an estimate of the amount of potential loss.

NOTE R – COMMITMENT

During the year ended March 31, 2002, the Township signed a 5 year contract for police services to be furnished by Lac Vieux Desert. The contract provides the Township make annual payments to Lac Vieux Desert of \$88,000 a year. It is expected that the Township will finance these payments with Class III gaming revenues to be received from the Lac Vieux Desert Band of Indians.

During the year ended March 31, 2007, the Township was billed and paid \$106,000 for services per agreement and extra items as billed.

NOTE S – DEFERRED REVENUES

The Township has received advance payments (\$18,000) from Lac Vieux Desert for Police Services as discussed above. Upon incurring cost by the Township, the monies will be reclassified as revenues used to defray the reported expenditures.

REQUIRED
SUPPLEMENTAL
INFORMATION

TOWNSHIP OF WATERSMEET
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE- BUDGET TO ACTUAL
GENERAL FUND
Year ended March 31, 2007
Budgeted Amounts

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Taxes	\$476,261	\$476,261	\$447,443	(\$28,818)
Other taxes	37,300	37,300	4,343	(32,957)
Tax administrative fees	60,500	60,500	68,457	7,957
Licenses and permits	29,000	29,000	24,003	(4,997)
Rentals	4,000	4,000	5,300	1,300
Federal shared revenues	44,000	44,000	36,968	(7,032)
State shared revenues	114,280	114,280	107,805	(6,475)
Class III gaming revenues	84,000	84,000	325,631	241,631
Charges for services	10,650	10,650	6,626	(4,024)
Interest	5,000	5,000	20,609	15,609
Other revenue	5,833	5,833	6,067	234
	<u>\$870,824</u>	<u>\$870,824</u>	<u>\$1,053,252</u>	<u>\$182,428</u>
EXPENDITURES				
Legislative	\$59,050	\$61,250	\$68,986	(\$7,736)
General government	344,972	332,772	294,485	38,287
Public safety	204,609	204,609	195,037	9,572
Public works	269,650	283,608	286,829	(3,221)
Recreation and culture	37,650	33,692	27,038	6,654
Other	81,821	81,821	64,128	17,693
Debt service	31,000	31,000	30,000	1,000
	<u>\$1,028,752</u>	<u>\$1,028,752</u>	<u>\$966,503</u>	<u>\$62,249</u>
EXCESS OF REVENUES (EXPENDITURES)	(157,928)	(157,928)	86,749	244,677
OTHER FINANCING SOURCES (USES)				
Transfers to/from other funds				
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	(157,928)	(157,928)	\$86,749	\$244,677
Fund Balance at 3/31/2006	476,034	476,034	476,034	
FUND BALANCE MARCH 31, 2007	<u>\$318,106</u>	<u>\$318,106</u>	<u>\$562,783</u>	<u>\$244,677</u>

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

OTHER
FINANCIAL
INFORMATION

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>			
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
LEGISLATIVE				
Township Board:				
Salaries:				
Trustees			\$6,480	
Secretary			19,683	
Pension			2,466	
Office supplies			6,043	
Contractual services			1,425	
Leasing costs			883	
Transportation			262	
Printing and publishing			2,249	
Memberships			15,506	
Charge backs			7,680	
Equipment purchases			6,309	
TOTAL LEGISLATIVE	59,050	61,250	68,986	(7,736)
GENERAL GOVERNMENT				
Supervisor:				
Salary			14,670	
Pension			1,467	
Office supplies			129	
Transportation			90	
Training			2,175	
TOTAL SUPERVISOR	18,290	18,290	18,531	(241)
Election:				
Wages			2,681	
Office supplies			43	
Transportation			24	
TOTAL ELECTION	6,100	6,100	2,748	3,352

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

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>			
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Assessor:				
Wages			24,678	
Office supplies			2,554	
Contractual services			5,519	
Transportation			3,892	
Memberships			150	
Training			679	
Miscellaneous			336	
TOTAL ASSESSOR	38,460	38,460	37,808	652
AUDIT FEES	7,500	7,500	4,600	2,900
Clerk:				
Salary			18,630	
Deputy clerk			5,255	
Fringe benefits			1,890	
Supplies			2,184	
Transportation			310	
Training			100	
TOTAL CLERK	28,096	28,096	28,369	(273)
Board of Review:				
Salaries			1,035	
Transportation			255	
BOARD OF REVIEW	1,800	1,800	1,290	510
Treasurer:				
Salary			20,430	
Deputy treasurer			1,251	
Pension			2,043	
Office supplies			5,559	
Transportation			769	
TOTAL TREASURER	37,576	37,576	30,052	7,524

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
 MAJOR GOVERNMENTAL FUND-GENERAL FUND
 STATEMENT OF EXPENDITURES
 BUDGET AND ACTUAL
 For the year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Township Properties:				
Wages			23,508	
Pension			2,351	
Supplies			7,866	
Utilities			20,416	
Repair & maintenance			8,296	
Transportation			3,956	
Equipment purchases			2,290	
Capital improvements			23,003	
TOTAL TOWNSHIP PROPERTIES	124,510	102,310	91,686	10,624
LEGAL FEES	16,000	16,000	12,938	3,062
Cemetery:				
Wages			5,933	
Pension			593	
Supplies			332	
Repairs			219	
TOTAL CEMETERY	10,440	10,440	7,077	3,363
Community Development:				
Wages			5,625	
Printing & publications			13,099	
Community promotions			38,561	
Miscellaneous			2,101	
TOTAL COMMUNITY DEVELOPMENT	56,200	66,200	59,386	6,814
TOTAL GENERAL GOVERNMENT	344,972	332,772	294,485	38,287

TOWNSHIP OF WATERSMEET
 MAJOR GOVERNMENTAL FUND-GENERAL FUND
 STATEMENT OF EXPENDITURES
 BUDGET AND ACTUAL

For the year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
PUBLIC SAFETY				
POLICE PROTECTION	110,000	110,000	106,000	4,000
Fire Department:				
Wages			8,315	
Supplies			494	
Transportation			1,318	
Insurance			3,912	
Repairs and maintenance			1,820	
Public utilities			4,251	
Training			1,371	
Equipment purchase			11,552	
FIRE DEPARTMENT	42,009	42,009	33,033	8,976
HEALTH & WELFARE	10,000	10,000	15,500	(5,500)
Building inspector:				
Wages			21,840	
Supplies			642	
Transportation			3,846	
Training			200	
BUILDING INSPECTOR	23,500	23,500	26,528	(3,028)
Zoning Board:				
Wages			10,533	
Office supplies			98	
Transportation			816	
Publications			470	
Training			647	
Miscellaneous			1,412	
ZONING BOARD	19,100	19,100	13,976	5,124
TOTAL PUBLIC SAFETY	204,609	204,609	195,037	9,572

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>			
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
PUBLIC WORKS				
Highway and streets repair			52	
Street improvements			32,811	
Highways & Streets	33,750	33,750	32,863	887
Street Lighting	19,000	19,000	13,638	5,362
ANS Project	20,000	23,958	17,130	6,828
Solid Waste:				
Wages			31,938	
Pension			3,114	
Disposal fees			151,861	
Supplies			302	
Public utilities			2,226	
Repairs and maintenance			2,262	
Capital improvements			31,495	
Solid Waste	196,900	206,900	223,198	(16,298)
TOTAL PUBLIC WORKS	269,650	283,608	286,829	(3,221)
RECREATION & CULTURE				
Parks:				
Wages			14,422	
Pension			1,377	
Supplies			1,234	
Utilities			742	
Repairs & maintenance			9,263	
TOTAL RECREATION & CULTURE	37,650	33,692	27,038	6,654

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
 MAJOR GOVERNMENTAL FUND-GENERAL FUND
 STATEMENT OF EXPENDITURES
 BUDGET AND ACTUAL
 For the year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
OTHER				
Payroll taxes	18,291	18,291	15,966	2,325
Fringe benefits	19,830	19,830	19,360	470
Contribution	4,200	4,200	2,977	1,223
Insurance and bonds	39,500	39,500	25,825	13,675
TOTAL OTHER	81,821	81,821	64,128	17,693
DEBT SERVICE				
Principal			25,925	
Interest and fees			4,075	
TOTAL DEBT SERVICE	31,000	31,000	30,000	1,000
TOTAL EXPENDITURES	\$1,028,752	\$1,028,752	\$966,503	\$62,249

The accompanying notes are an integral part of the financial statements

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Supervisor and Members of the Board
Township of Watersmeet
Watersmeet, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Watersmeet as of and for the year ended March 31, 2007, which collectively comprise the Township of Watersmeet basic financial statements and have issued our report thereon dated July 12, 2007. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Township of Watersmeet's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit, we considered the Township of Watersmeet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions are described as follows:

2005-1 Property Ledger

The Township has not implemented physical inventorying procedures in assuring the accuracy of assets being reported upon besides smaller capital items acquired in prior years. The Township lacks a formal, updated, comprehensive listing of all assets owned by the Township.

Without performing a physical inventory, the Township has no assurances as their actual holdings or if they are adequately insured against various types of losses.

2005-2 Inadequate controls over Water and Sewer Billings

The Township has assigned the billing, collecting, posting and depositing of water and sewer receipts to one employee without providing proper oversight. A complete set of billing reports were unavailable for review for the period under audit. The billing software program utilized during majority of the audit period was replaced prior to year end, making it more time consuming to determine customer's year end balances. Finally, we noted utility collections being held up to one month before being deposited.

We recommend that additional copies of billing and collection reports be provided to the Township Treasurer for safekeeping. The Water and Sewer billing clerk should be instructed to prepare weekly deposits and reconciled collections with computer generated receipting reports on a timely basis. Differences should be investigated by the Township Treasurer should the billing clerk be unable to timely determine and resolve any differences. The utilization of the Township's Treasurer or delegate, be assigned to review the collection and billing process to ensure that procedures are being complied with.

2006-1 Pension Plan Variances

Upon reviewing the adopted Simplified Employee Pension Plan as adopted by the Township Board, we noted discrepancies in the coverage and actual pension contribution payments.

The SEP plan was to extend to all employees earning \$450 or more; employed for three years or more and who has attained the age of 21. Actual practice by the Township is to extend coverage to Board Members and employees covered under a collective bargaining agreement. There appears that other employees may be eligible but are not included.

Also, according to the SEP plan, employer's contributions on behalf of eligible employees were to be based upon 10% of the employees W-2 wages. Actual practice, allows for deductions for union employees receiving extra compensation for not participating in the health insurance plan offered by the Township. Also, Board Members attending additional meetings were not incorporated in the calculation of pension benefits. Finally, actual pension payments were previously being remitted monthly, then quarterly, with no established time frames.

The Township Board may want to evaluate the current pension plan to determine if it meets their intention and funding limits. Furthermore, plan amendments or possibly establishing a different pension plan may be necessary to exclude employees without being discriminatory. No additional liabilities have been recognized in the financial statements for employees not covered presently pending the Board's final decision.

2006-2 Unsupported Expenditures

In reviewing selected payments for adequate support, it was noted that various paid invoices could not be located. While the payments appear to be properly classified and legal, all payments issued to vendors should have appropriate documentation attached with evidence of payment.

The invoice files appear to be available to all employees and/or Board Members in a common area. Should invoices not be filed originally and/or misfiled upon subsequent review, there is no apparent oversight to maintaining a proper filing system.

The Township Clerk may want to provide oversight as to who has access to files under his control. Files should be streamlined in eliminating duplicate vendor files and outdated invoices.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted the above items involving the internal control over financial reporting and its operations that we consider to be material weaknesses. In addition, we noted other matters involving internal control over financial reporting that have been reported in a separate letter to management of the Township of Watersmeet dated July 12, 2007.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Members of the Board, is a matter of public record.


Roger J. Kolehmainen PC
Certified Public Accountant

July 12, 2007

Roger J. Kolehmainen CPA PC
1445 East Cloverland Drive
Ironwood, MI 49938
(906) 932-3600

MANAGEMENT LETTER

Township Supervisor and
Members of the Board
Township of Watersmeet
Watersmeet, MI

We have audited the general purpose financial statements of the Township of Watersmeet, as of and for the year ended, March 31, 2007, and have issued our report dated July 12, 2007.

In planning and performing the audit of the financial statements, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing any opinion on the financial statements and not to provide assurance on the internal control structure.

During the course of our audit, certain matters have come to our attention which we feel should be addressed by management. These matters are not considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, they are areas in which management may improve its accounting and reporting system.

The following are items that have been discussed during the course of our audit with appropriate officials of the Township.

1. The Township had cash and investments on deposit that exceed the FDIC insurance coverage should a loss be experienced. The Treasurer should be instructed to research terms with other local banking institutions in reducing the risk element. The Tax Fund should allow for a additional authorized signature to reduce insurance cost in not increasing fidelity bond coverage.
2. In adopting the General Fund budget, the beginning Fund Balance was reported as additional revenues and appear to be incomplete. The budget should be adopted reflecting revenues less expenditure, with the difference to be added or deducted against the Fund Balance being carried forwarded
3. Official Board Minutes are not being maintained in a separate bound Minute Board and signed by appropriate officials.
4. Unused checks were not safeguarded against unauthorized use or possible loss.

5. Miscellaneous items

The Township will need to implement corrective actions to ensure that:

- Salary and hourly personnel prepare timesheets to document time and attendance. The employee should sign his time sheet to confirm accuracy.
- Leave records should be obtained quarterly and reviewed to verify the accuracy of such records.
- Need to incorporate safe in the safeguarding of important papers, files, records, checks against various types of theft or losses
- Receipt books should be maintained and accounted for by Treasurer
- Disbursements to vendors should be based upon original invoice submitted. Our review noted overpayments which were subsequently refunded or credited.
- Tax administrative fee being charged to various units of government should allow for the recovery of actual costs. Will need to analyze the actual cost of collecting versus reimbursement.
- Ambulance contract provides for monies to be set aside on an annual basis. No such cash account had been established by year end.

We appreciate the opportunity to present these items to you and would be available to assist in providing guidance in implementing any or all of the above items.

This letter does not affect our report of the general purpose financial statements dated July 12, 2007. This report is intended solely for use of management.


Roger J. Kolehmainen PC
Certified Public Accountant\

July 12, 2007