

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 Bagley Township	County Otsego
Fiscal Year End 03/31/2007	Opinion Date 06/22/2007	Date Audit Report Submitted to State 10/31/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Keskine Cook Miller & Alexander LLP		Telephone Number 989-732-7515		
Street Address 100 West First		City Gaylord	State Mi	Zip 49735
Authorizing CPA Signature 		Printed Name Jeffrey Cook		License Number 1101011876

TOWNSHIP OF BAGLEY
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2007

TOWNSHIP OFFICIALS

SUPERVISOR

BILL GILES

CLERK

JAMES SZYMANSKI

TREASURER

MARY YAGER

ASSESSOR

JASON WOODCOX

TRUSTEES

RICHARD SUMERIX

FRED BURNS

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Keskine, Cook, Miller & Alexander, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskine, CPA
Jeffrey B. Cook, CPA
Richard W. Miller, CPA
Ronald D. Alexander, CPA
Curt A. Reppuhn, CPA

INDEPENDENT AUDITOR'S REPORT

June 22, 2007

To the Township Board
Bagley Township

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bagley Township, Otsego County, Michigan 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 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 general purpose 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Bagley Township, Otsego County, Michigan as of March 31, 2007, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bagley Township has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the financial statements.

The budgetary comparison information on pages 19 through 21, 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 supplementary information. However, we did not audit the information and express no opinion on it.

Keskine, Cook, Miller & Alexander LLP

Keskine, Cook, Miller & Alexander, LLP
Certified Public Accountants

**TOWNSHIP OF BAGLEY
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007**

	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUES & CHANGE IN NET ASSETS</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS & CONTRI- BUTIONS</u>	<u>CAPITAL GRANTS & CONTRI- BUTIONS</u>	<u>TOTAL</u>	<u>COMPONENT UNIT</u>
GOVERNMENTAL ACTIVITIES						
General Government	\$ (271,615)	\$ 14,040	\$ -	\$ -	\$ (257,575)	\$ (1,200)
Fire Protection	(112,197)	-	-	-	(112,197)	-
Liquor Law Enforcement	(5,023)	-	3,027	-	(1,996)	-
Public Works	(400,000)	-	400,000	-	-	-
Street Lights	(7,358)	-	-	-	(7,358)	-
Total Governmental Activities	<u>(796,193)</u>	<u>14,040</u>	<u>403,027</u>	<u>-</u>	<u>(379,126)</u>	<u>(1,200)</u>
GENERAL REVENUES						
Property Taxes:						
DDA TIFA					-	34,415
State Shared (not restricted to specific purpose)					409,284	-
Interest and Other Income					139,586	4,586
Total General Revenues					<u>548,870</u>	<u>39,001</u>
CHANGE IN NET ASSETS					169,744	37,801
NET ASSETS - BEGINNING OF YEAR					2,495,667	187,560
NET ASSETS - END OF YEAR					<u>\$ 2,665,411</u>	<u>\$ 225,361</u>

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
BALANCE SHEET
AS OF MARCH 31, 2007**

	<u>MAJOR FUND</u>	<u>NON-MAJOR FUND</u>	<u>TOTAL</u>
	<u>GENERAL</u>	<u>LIQUOR</u>	
ASSETS			
Cash	\$ 141,741	\$ 36,358	\$ 178,099
Certificates of Deposit	985,083	-	985,083
Due From Other Funds	24,522	-	24,522
Due from Other Governments	15,000	-	15,000
	<hr/>	<hr/>	<hr/>
Total Assets	1,166,346	36,358	1,202,704
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND EQUITY			
Fund Equity:			
Fund Balance - Undesignated	1,166,346	36,358	1,202,704
	<hr/>	<hr/>	<hr/>
Total Fund Balance	1,166,346	36,358	1,202,704
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Equity	\$ 1,166,346	\$ 36,358	\$ 1,202,704
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007**

TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 8)	\$	1,202,704
Amounts reported for governmental activities in the Statement of Net Assets (page 6) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not recorded in the funds		1,462,707
		<hr/>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF NET ASSETS - PAGE 6)	\$	2,665,411
		<hr/> <hr/>

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2007**

	<u>MAJOR FUND</u>	<u>NON-MAJOR FUND</u>	
	<u>GENERAL</u>	<u>LIQUOR</u>	<u>TOTAL</u>
REVENUES			
State Sources:			
State Shared Revenue	\$ 409,284	\$ 3,027	\$ 412,311
Local Sources:			
Interest	122,475	-	122,475
Act 425 Income	15,000	-	15,000
Permits and Hall Rent	432	-	432
Miscellaneous	415,719	-	415,719
Total Revenues	962,910	3,027	965,937
EXPENDITURES			
General Government	264,633	-	264,633
Public Safety:			
Liquor Law Enforcement	2,300	2,723	5,023
Fire Safety	104,522	-	104,522
Street Lights	7,358	-	7,358
Public Works	400,000	-	400,000
Total Expenditures	778,813	2,723	781,536
Excess (Deficiency) of Revenues over Expenditures	184,097	304	184,401
Fund Balance - Beginning of Year	982,249	36,054	1,018,303
Fund Balance - End of Year	\$ 1,166,346	\$ 36,358	\$ 1,202,704

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS (PER STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - PAGE 7)	\$	184,401
Amounts reported for governmental activities in the statement of activities (page 7) are different because:		
Depreciation expense is recorded in the statement of activities but not the governmental fund financial statements.		(14,657)
Capital outlay purchases are recorded as an expenditure in the fund financial statements but are recorded as capital assets in the government wide statements.		-
CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF ACTIVITIES - PAGE 3)	\$	169,744

See accompanying notes to financial statements.

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

	ASSETS		
Cash		\$	54,924
			<hr/>
	LIABILITIES		
Due to Other Funds			24,522
Due to Component Unit			30,402
			<hr/>
Total Liabilities			54,924
			<hr/>
	NET ASSETS		
Fiduciary Net Assets		\$	-
			<hr/> <hr/>

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2007**

NOTE A: ENTITY

The Township of Bagley is a general law township of the State of Michigan located in Otsego County, Michigan. It operates under an elected board and provides service to its residents in many areas including law enforcement, community enrichment, and human services. The criteria established for determining various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Bagley Township.

The Otsego County Fire Board provides fire protection services to the Township. The Board is comprised of several governmental units in Otsego County including Bagley Township. The Township's respective share of the Fire Board's assets have been included in these financial statements. The Township does not have oversight responsibility for the Otsego County Fire Board. The Fire Board is audited under separate cover and may be obtained at The City of Gaylord, 225 West Main, Gaylord, Michigan, 49735.

COMPONENT UNIT

On October 11, 1999, the Township created the Township of Bagley Downtown Development Authority under Public Act 197 of the State of Michigan of 1975 as amended. The Authority will use tax increment financing to fund its operations. The activity of the Authority is recorded as a discretely presented component unit of Bagley Township. Audited financial statements for the component unit are located at: 2946 S. Otsego Ave., Gaylord, MI 49735.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Bagley Township are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Bagley Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On April 1, 2002, Bagley Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Township has no business-type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not classified as program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental fund:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from state distributions and interest earnings.

The Township has one non-major fund – Liquor Law Enforcement Fund.

Other Funds

Fiduciary Fund - This is used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

The Township levies no property tax.

Taxes for the Bagley Township Downtown Development Authority, a component unit of the Township, represent a tax-increment financed capture and are recognized as revenue in that fiscal year. Taxes are assessed on a lien date of December 1st and are recorded as revenue at that time.

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on a fund basis.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET (CONTINUED)

During the year ended March 31, 2007, no fund overspent its budget. Budgets as adopted end on March 31, of each year. There are no carryover budget items. Budgets are adopted on the modified accrual basis of accounting. Amendments are made to the budgets when determined to be necessary throughout the year. The budgets presented are both the original and final amended amounts.

ESTIMATES

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

CAPITAL ASSETS AND DEPRECIATION

The Townships property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Township owns no infrastructure assets. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$3,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings	5 – 50
Improvements, other than buildings	2 – 50
Mobile equipment	3 – 30
Furniture, machinery, and equipment	3 – 30

For information describing capital assets, see Note F.

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS (CONTINUED)

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

As of March 31, 2007, the Township has no outstanding long-term debt.

NOTE C: COMMON BANK ACCOUNTS

The Township combines all funds except Trust and Agency (tax collection) and petty cash into a common checking account. Balance at March 31, 2007, is as follows:

	COMMON CHECKING
General	\$ 141,241
Liquor	<u>36,358</u>
Total	<u>\$ 177,599</u>

NOTE D: CASH AND CERTIFICATES OF DEPOSIT

Investments can be made in certificates of deposit, bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority.

Cash is classified into three categories of risk as follows:

Category 1: Insured or collateralized with securities held by the Local Unit or its agent in the Local Unit's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Local Unit's name.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007

NOTE D: CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)

Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Local Unit's name).

	<u>BANK BALANCE</u>	<u>RISK CATEGORIES</u>			<u>CARRYING AMOUNT</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Common Checking	\$ 150,341	\$ 100,000	\$ -	\$ 50,341	\$ 177,599
Certificates of Deposit	985,033	300,000	-	785,033	985,033
Petty Cash	500	-	-	-	500
TOTAL	<u>\$ 1,135,884</u>	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ 835,374</u>	<u>\$ 1,163,132</u>
 Trust & Agency					
Checking	<u>\$ 50,924</u>	<u>\$ 50,924</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,924</u>

At the year end, the balance sheet carrying amount of deposits was equal to amounts above.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The tax fund (an agency fund type) owes \$20,522 to the general fund and \$30,422 to the DDA as of March 31, 2007.

NOTE F: CAPITAL ASSETS

	<u>CAPITAL ASSETS NOT DEPRECIATED</u>		<u>CAPITAL ASSETS DEPRECIATED</u>			
	<u>Land & Improv.</u>	<u>Intangible Sewer Costs</u>	<u>Buildings</u>	<u>Furniture & Fixtures</u>	<u>Equipment</u>	<u>Totals</u>
Governmental Activities						
Capital Assets						
Balance, April 1, 2006	\$ 712,706	\$ 515,258	\$ 125,262	\$ 4,435	\$384,427	\$1,742,088
Increases	-	21,615	-	-	-	21,615
Decreases	-	-	-	-	-	-
Balance, March 31, 2007	<u>\$ 712,706</u>	<u>\$ 536,873</u>	<u>\$ 125,262</u>	<u>\$ 4,435</u>	<u>\$384,427</u>	<u>\$1,763,703</u>
 Governmental Activities						
Accumulated Depreciation						
Balance, April 1, 2006	\$ -	\$ -	\$ 63,892	\$ 3,106	\$219,341	\$ 286,339
Increases	-	-	2,997	444	11,217	14,658
Decreases	-	-	-	-	-	-
Balance, March 31, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,889</u>	<u>\$ 3,550</u>	<u>\$230,558</u>	<u>\$ 300,997</u>
Total Primary Government	<u>\$ 712,706</u>	<u>\$ 536,873</u>	<u>\$ 58,373</u>	<u>\$ 885</u>	<u>\$153,869</u>	<u>\$1,462,706</u>

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007**

NOTE F: CAPITAL ASSETS (CONTINUED)

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

Administration	\$ 3,304
Township Hall	2,997
Fire Protection	<u>8,357</u>
	<u>\$14,658</u>

NOTE G: 425 AGREEMENT

Bagley Township has several contracts for transfer of property with the City of Gaylord which is governed pursuant to P.A. 1984 NO. 425. The contract shall be in effect for 16 years from date of contracts. Bagley Township allows the City of Gaylord to extend water and sewer service to the property. During the contract the property shall be part of the jurisdiction of the City of Gaylord for all purposes and any revenues generated by the property belongs to the City. Upon expiration, the contract shall be renewable in whole or in part for an additional 10 years upon mutual agreement. The Township recognized \$15,000 in Act 425 income in the current year.

NOTE H: INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Township participates in the Michigan Municipal Liability and Property Pool, a self-insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expense for a policy year exceed the total normal annual premiums for said years, all members of the pool's year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage, nor were there any significant claims for the year. The Township carries commercial insurance for other types of losses, including accident insurance.

NOTE I: PENSION PLAN

The Township of Bagley has a defined contribution pension plan covering substantially all of its elected officials.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2007**

NOTE I: PENSION PLAN

Pursuant to Act 27 of P.A. 1960, as amended Bagley Township adopted a pension plan effective December 1, 1968 and was amended in 1989. The name of the plan is *Manulife Financial Defined Contribution Pension Plan For Governmental Employees*. The Township contributes annually based on compensation paid over a fiscal year ending November 30th. Contributions range from a minimum of \$100 to a maximum of \$500. The Township contributes 75% and the employee contributes 25%. Employees may also make voluntary contributions up to IRS Code Section 415 limits.

Township Contributions	\$ 4,407
Employee Contributions	<u>2,795</u>
Total Contributions	<u>\$ 7,202</u>

Employees' eligibility begins on the date of employment. All participants are vested 100%. Employees may participate until age 80. Normal retirement is age 65 or upon completion of 10 years of service whichever is later. Early retirement is permitted at age 55.

The plan is maintained with the Manufacturers Life Insurance Company. The total pension expense for the year was \$4,407 which meets the contribution requirements of the Township. There were no substantial changes in the plan for the year.

NOTE J: COMPARATIVE DATA

Comparative total data for the prior year have been presented in the supplemental financial data in order to provide an understanding of the changes in the Township's financial operations. However, comparative data has not been presented in every statement.

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2006
GENERAL FUND
YEAR ENDED MARCH 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FROM AMENDED BUDGET	PRIOR YEAR ACTUAL
REVENUES					
State Sources:					
State Shared Revenue	\$ 300,500	\$ 300,500	\$ 409,284	\$ 108,784	\$ 404,779
Local Sources:					
Interest	6,500	6,500	122,512	116,012	38,071
Act 425 Income	15,000	15,000	15,000	-	30,182
Licenses and Permits	500	500	432	(68)	469
Other Income	400,500	400,500	415,682	15,182	17,942
Total Revenues	723,000	723,000	962,910	239,910	491,443
EXPENDITURES					
GENERAL GOVERNMENT					
Township Board:					
Salaries	12,000	12,000	9,000	3,000	9,000
Payroll Taxes	7,000	7,000	6,307	693	5,775
Medical Reimbursement	10,000	10,000	6,000	4,000	8,000
Pension Plan	6,000	6,000	6,285	(285)	4,407
Office Supplies	4,000	4,000	2,729	1,271	2,746
Professional Services	90,000	90,000	30,793	59,207	89,559
Contract Services	40,000	40,000	22,052	17,948	22,284
Communications	2,000	2,000	1,981	19	1,624
Transportation	100	100	-	100	-
Printing and Publishing	1,500	1,500	835	665	868
Insurance and Bonds	10,000	10,000	8,744	1,256	8,727
Membership and Dues	10,000	10,000	4,574	5,426	4,867
Equipment	4,500	4,500	-	4,500	-
Local Match - Beaver Creek Construction Project	-	-	-	-	-
Total Township Board	197,100	197,100	99,300	97,800	157,857
Township Supervisor:					
Salary	22,300	22,300	20,152	2,148	20,152
Supplies	300	300	259	41	66
Total Township Supervisor	22,600	22,600	20,411	2,189	20,218
Election Board:					
Salaries	8,000	8,000	8,864	(864)	2,350
Postage	5,000	6,000	4,222	1,778	2,293
Contract Services	-	-	-	-	240
Equipment	6,000	6,000	-	6,000	-
Total Election Board	19,000	20,000	13,086	6,914	4,883
Township Assessor:					
Salaries	55,000	55,000	48,586	6,414	48,596
Supplies	7,500	7,500	4,193	3,307	5,467
Contract Service	2,500	2,500	1,565	935	1,480

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2006
GENERAL FUND
YEAR ENDED MARCH 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE FROM AMENDED BUDGET	PRIOR YEAR ACTUAL
Mileage	1,000	1,000	249	751	767
Equipment	8,000	8,000	1,687	6,313	3,037
Total Township Assessor	74,000	74,000	56,280	17,720	59,347
Township Clerk:					
Salary	26,300	26,300	25,196	1,104	25,196
Supplies	3,500	3,500	3,224	276	2,975
Equipment	1,000	1,000	246	754	-
Total Township Clerk	30,800	30,800	28,666	2,134	28,171
Board of Review:					
Salaries	5,000	5,000	1,500	3,500	2,400
Mileage	300	300	-	300	-
Total Board of Review	5,300	5,300	1,500	3,800	2,400
Township Treasurer:					
Salaries	26,300	26,300	25,196	1,104	25,196
Supplies	7,000	10,000	7,074	2,926	3,092
Contract Services	2,500	2,500	1,164	1,336	1,060
Equipment	2,000	2,000	1,595	405	-
Total Township Treasurer	37,800	40,800	35,029	5,771	29,348
Township Hall:					
Supplies	300	300	-	300	-
Contract Services	3,500	3,500	3,067	433	3,066
Utilities	3,500	3,500	3,541	(41)	3,589
Repair and Maintenance	2,000	2,000	2,103	(103)	198
Improvements	1,000	1,000	-	1,000	-
Total Township Hall	10,300	10,300	8,711	1,589	6,853
Planning and Zoning	3,000	3,000	1,650	1,350	2,150
Total General Government	399,900	403,900	264,633	139,267	311,227
PUBLIC SAFETY					
Liquor Law Enforcement	3,300	3,300	2,300	1,000	1,200
Fire Protection	108,000	108,000	104,522	3,478	107,108
Street Lights	8,000	8,000	7,358	642	6,542
Total Public Safety	119,300	119,300	114,180	5,120	114,850
Public Works	600,000	600,000	400,000	200,000	91,615
Total Expenditures	1,119,200	1,123,200	778,813	344,387	517,692

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2006
GENERAL FUND
YEAR ENDED MARCH 31, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FROM AMENDED BUDGET</u>	<u>PRIOR YEAR ACTUAL</u>
Excess (Deficiency) of Revenues over Expenditures	(396,200)	(400,200)	184,097	584,297	(26,249)
Fund Balance - Beginning of Year	982,249	982,249	982,249	-	1,008,498
Fund Balance - End of Year	<u>\$ 586,049</u>	<u>\$ 582,049</u>	<u>\$ 1,166,346</u>	<u>\$ 584,297</u>	<u>\$ 982,249</u>



Keskin, Cook, Miller & Alexander, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, CPA
Jeffrey B. Cook, CPA
Richard W. Miller, CPA
Ronald D. Alexander, CPA
Curt A. Reppuhn, CPA

We have audited the financial statements of Bagley Township for the year ended March 31, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of Bagley Township in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute

assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bagley Township are described in Note 1 to the financial statements. We noted no transactions entered into by Bagley Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. We have communicated orally to you an item regarding grants. These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the financial statements, dated June 22, 2007.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,


Keskine, Cook, Miller & Alexander, LLP