

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 FAIRGROVE TOWNSHIP	County TUSCOLA
Fiscal Year End 03/31/07	Opinion Date 9-7-2007	Date Audit Report Submitted to State 9-11-2007	

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 type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	SAS 112 Letter	
Certified Public Accountant (Firm Name) Weinlander Fitzhugh			Telephone Number 989-893-5577	
Street Address 1600 Center Ave			City Bay City	State Mi
			Zip 48707	
Authorizing CPA Signature <i>Stewart J Reid CPA</i>		Printed Name STU REID		License Number 1101008826

FAIRGROVE TOWNSHIP
TUSCOLA COUNTY, MICHIGAN

FINANCIAL STATEMENTS
MARCH 31, 2007

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INDEPENDENT AUDITORS' REPORT

September 7, 2007

Township Board
Township of Fairgrove
Tuscola County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Township of Fairgrove, Tuscola 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 index. 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 aggregate remaining fund information of the Township of Fairgrove as of March 31, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying management's discussion and analysis and budgetary comparison information, as listed in the index, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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RSM! McGladrey Network

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FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

Our discussion and analysis of the Township of Fairgrove's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2007.

Financial Highlights

The General Fund reported an excess of revenues over expenditures of \$34,000 for the year, resulting in an ending fund balance of \$319,000.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township of Fairgrove financially as a whole. The *government-wide financial statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent or trustee.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Reporting the Township as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

These two statements report the Township's net assets as a way to measure the Township's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Township.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Township's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

These funds are used to account for assets held in trust or as an agent for others. The Township uses these funds to account for perpetual care monies and current tax collections. All of the Township's fiduciary activities are reported in separate Statements of Net Assets and Changes in Net Assets. We excluded these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net assets as of March 31, 2007 and 2006.

<u>Exhibit A</u>	Governmental Activities	
	2007	2006
Assets		
Current and other assets	\$ 327,000	\$ 293,000
Capital assets - net of accumulated depreciation	39,000	39,000
Total assets	366,000	332,000
Liabilities		
Current liabilities	8,000	8,000
Net Assets		
Invested in property and equipment - net of related debt	39,000	39,000
Unrestricted	319,000	285,000
Total net assets	\$ 358,000	\$ 324,000

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

Exhibit A , on the previous page, focuses on net assets. The Township's total net assets were \$358,000 at March 31, 2007. Capital assets net of related debt, totaling \$39,000, compares the original costs, less depreciation of the Township's capital assets to long-term debt used to finance the acquisition of those assets.

The \$319,000 of unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended March 31, 2007. Exhibit B provides a summary of the Township's operations for 2007 and 2006.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

	Governmental Activities	
<u>Exhibit B</u>	2007	2006
Revenue		
Program revenue:		
Charges for services	\$ 13,000	\$ 13,000
General revenue:		
Property taxes	246,000	238,000
State share revenue	69,000	65,000
Interest income	12,000	8,000
Other	3,000	16,000
	343,000	340,000
Total revenue		
Function/Program Expenses		
General government	65,000	59,000
Public safety	50,000	53,000
Sanitation	88,000	86,000
Drains	31,000	41,000
Cemetery	24,000	30,000
Highways and streets	51,000	66,000
	309,000	335,000
Total expenses		
Increase in Net Assets	\$ 34,000	\$ 5,000

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$309,000. Certain activities were partially funded by \$13,000 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our Governmental activities with \$246,000 in taxes, \$69,000 in State shared revenue, and with our other revenues, such as interest and miscellaneous revenues.

The Township experienced an increase in net assets of \$34,000, mainly due to property taxes and interest income exceeding anticipated amounts.

The Township's Funds

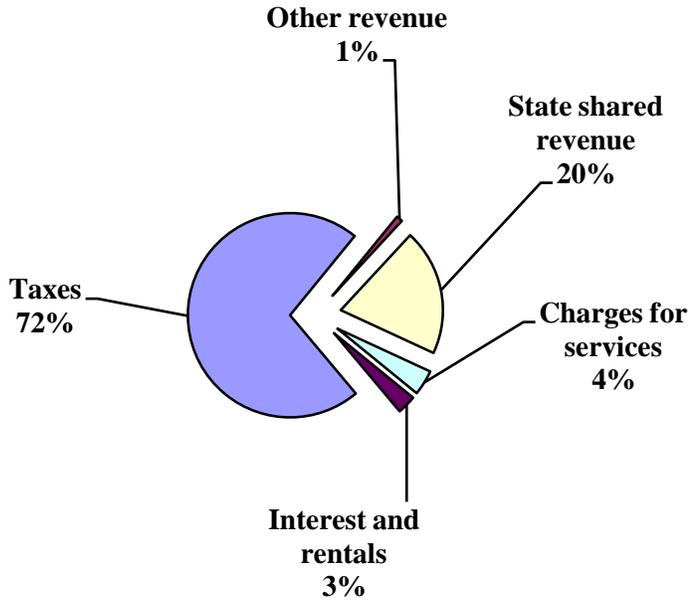
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's governmental fund reported a fund balance of \$319,000, which is above last year's total of \$285,000. The schedule below details the fund balance and the total change in fund balances as of March 31, 2007 and 2006.

	<u>Fund Balance</u> <u>March 31, 2007</u>	<u>Fund Balance</u> <u>March 31, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General Fund	<u>\$ 319,000</u>	<u>\$ 285,000</u>	<u>\$ 34,000</u>

FAIRGROVE TOWNSHIP
 Management's Discussion and Analysis
 For the Year Ended March 31, 2007

The graph below details the major sources of the Township's revenues.



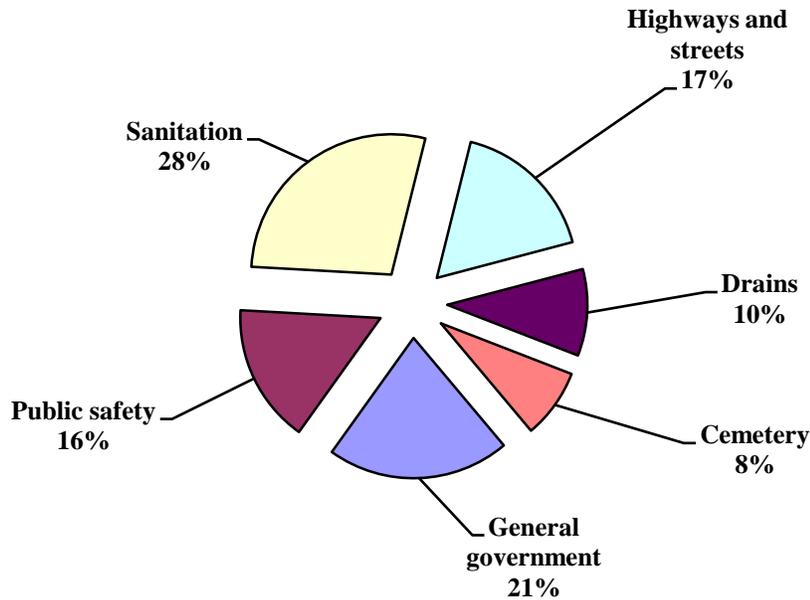
The chart below compares current year revenues with last year.

	2007	2006	Percentage Change
<i>Revenues by Function</i>			
Taxes	\$ 246,000	\$ 238,000	3%
State shared revenue	69,000	65,000	6%
Charges for services	13,000	13,000	0%
Interest income	12,000	8,000	50%
Other	3,000	16,000	-81%
Total	\$ 343,000	\$ 340,000	1%

Revenues are up \$3,000 mainly due to increases in interest rates and property taxes and an offset of other revenue.

FAIRGROVE TOWNSHIP
 Management's Discussion and Analysis
 For the Year Ended March 31, 2007

The graph below details the major expenditure categories of the Township.



The chart below compares current year expenditures with last year.

<i>Expenditures by Function</i>	2007	2006	Percentage Change
General Government	\$ 65,000	\$ 59,000	10%
Public Safety	50,000	53,000	-6%
Sanitation	88,000	86,000	2%
Drains	31,000	41,000	-24%
Cemetery	24,000	30,000	-20%
Highways and streets	51,000	66,000	-23%
Total	\$ 309,000	\$ 335,000	-8%

Expenditures are down \$26,000 from the prior year mainly due to less work on the roads and drains.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

General Fund Budgetary Highlights

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

- There were no significant changes made to the original budget.

Capital Assets

At March 31, 2007, the Township had \$39,000 invested in capital assets, including land and a building.

	Governmental Activities	
	2007	2006
Land	\$ 39,000	\$ 39,000
Buildings and improvements	30,000	30,000
 Total capital assets	 69,000	 69,000
 Less accumulated depreciation	 30,000	 30,000
 Net capital assets	 <u>\$ 39,000</u>	 <u>\$ 39,000</u>

There were no major expenditures during 2007 that met the criteria for capitalization.

We present more detailed information about our capital assets in the notes to the financial statements. We anticipate no capital additions next year.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2007

Factors Expected to Have an Effect on Future Operations

The funding level of state revenue sharing is uncertain, as the State of Michigan continues to use this as a means to balance the state budget.

Contacting The Township's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township Clerk's Office at 1954 Main St., Fairgrove, Michigan 48733.

FAIRGROVE TOWNSHIP
Statement of Net Assets
March 31, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 299,906
Taxes receivable	26,292
Due from fiduciary funds	1,012
Capital assets - less accumulated depreciation of \$30,000	39,000
Total Assets	366,210
<u>Liabilities</u>	
Accounts payable	8,216
<u>Net Assets</u>	
Invested in capital assets net of related debt	39,000
Unrestricted	318,994
Total Net Assets	\$ 357,994

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>
		Charges for <u>Services</u>	Net (Expense) Revenue and Changes in Net <u>Assets</u>
Primary government:			
General government	\$ 65,170	\$ 0	\$ (65,170)
Public safety	49,658	0	(49,658)
Sanitation	88,529	0	(88,529)
Drains	30,853	0	(30,853)
Cemetery	23,898	14,116	(9,782)
Highways and streets	50,563	0	(50,563)
	<u>\$ 308,671</u>	<u>\$ 14,116</u>	<u>(294,555)</u>
Total primary government			
General revenues:			
Property taxes			245,556
State shared revenues			69,241
Interest income			1,606
Miscellaneous			12,108
			<u>328,511</u>
Total general revenues			
			328,511
Change in net assets			33,956
Net assets - beginning of year			<u>324,038</u>
Net assets - end of year			<u>\$ 357,994</u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Governmental Funds
Balance Sheet
March 31, 2007

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 299,906
Taxes receivable	26,292
Due from other funds	<u>1,012</u>
 Total assets	 \$ <u><u>327,210</u></u>
 <u>Liabilities</u>	
Accounts, payroll, and taxes payable	\$ 8,216
 <u>Fund Balance</u>	
Undesignated	<u>318,994</u>
 Total liabilities and fund balance	 \$ <u><u>327,210</u></u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
March 31, 2007

Total fund balance - governmental funds	\$	318,994
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p style="padding-left: 40px;">Capital assets used in governmental activities are not financial resources and are not reported in the funds:</p>		
Cost of the capital assets	\$ 69,000	
Accumulated depreciation	<u>(30,000)</u>	<u>39,000</u>
Total net assets - governmental activities	\$	<u><u>357,994</u></u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended March 31, 2007

	<u>General Fund</u>
<u>Revenues</u>	
Property taxes	\$ 245,556
State shared revenues	69,241
Interest income	11,520
Grave openings	11,250
Other revenue	2,866
Sale of cemetery lots	1,606
Licenses and permits	588
	<hr/>
Total revenues	342,627
	<hr/>
<u>Expenditures</u>	
Current:	
General government	65,170
Public safety	49,658
Sanitation	88,529
Drains	30,853
Cemetery	23,898
Highways and streets	50,563
	<hr/>
Total expenditures	308,671
	<hr/>
Excess of revenues over expenditures	33,956
Fund balance - beginning of year	285,038
	<hr/>
Fund balance - end of year	<u><u>\$ 318,994</u></u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2007

Net change in fund balance - total governmental funds	\$ 33,956
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	<u>0</u>
Change in net assets of governmental activities	<u><u>\$ 33,956</u></u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Fiduciary Funds
Statement of Net Assets
March 31, 2007

	Perpetual Care Fund	Current Tax Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 13,823	\$ 1,012
Total assets	13,823	\$ 1,012
<u>Liabilities</u>		
Due to other funds	0	\$ 1,012
<u>Net Assets</u>	\$ 13,823	

See accompanying notes to financial statements.

FAIRGROVE TOWNSHIP
Fiduciary Funds
Statement of Revenues, Expenditures and
Changes in Net Assets
March 31, 2007

	Perpetual Care Fund
<u>Revenues</u>	
Interest	\$ 378
<u>Expenditures</u>	0
Excess of revenues over expenditures	378
Net Assets - beginning	13,445
Net Assets - ending	\$ 13,823

See accompanying notes to financial statements.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Fairgrove conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Fairgrove.

Reporting Entity

The Township of Fairgrove is governed by an elected five member council (Board). The accompanying financial statements present the financial position and results of operations for the Township.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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

The Township reports the following major governmental fund:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land and buildings are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Buildings are depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
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Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method. Leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future receive such payments upon termination.

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

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Township of Fairgrove follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township's supervisor submits to the Board a proposed budget prior to April 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund are presented as Required Supplemental Information.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

At year-end, the Township's deposits were reported in the basic financial statements in the following categories:

Governmental activities	\$ 299,906
Fiduciary funds	<u>14,835</u>
Total	<u><u>\$ 314,741</u></u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u><u>\$ 314,741</u></u>
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Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2007, \$214,271 of the Township's bank balance of \$314,271 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 4 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 39,000	\$ 0	\$ 0	\$ 39,000
Capital assets being depreciated:				
Buildings and improvements	30,000	0	0	30,000
Less accumulated depreciation for:				
Buildings	30,000	0	0	30,000
Net capital assets being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 39,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 39,000</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A summary of interfund receivable and payable balances at March 31, 2007 is shown below. There were no transfers between funds at March 31, 2007.

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 1,012	\$ 0
Current Tax Fund	<u>0</u>	<u>1,012</u>
	<u>\$ 1,012</u>	<u>\$ 1,012</u>

Interfund receivables from the tax fund represent unremitted tax collections.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 6 – PENSION PLAN

The Township provides pension benefits through a defined contribution plan with John Hancock . The Township contributes 15% of compensation for eligible employees. The Township's pension expense for the year ended March 31, 2007 amounted to \$5,324.

NOTE 7 – BUILDING LEASE

On March 1, 2005, the Township entered into a five-year lease agreement with the Fairgrove District Library for a portion of one of its buildings at an annual rate of \$1. The Library is responsible for two-thirds of the maintenance and insurance costs.

FAIRGROVE TOWNSHIP
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 240,485	\$ 240,485	\$ 245,556	\$ 5,071
State shared revenues	65,000	65,000	69,241	4,241
Other revenue	11,665	11,665	11,520	(145)
Grave openings	10,000	10,000	11,250	1,250
Sale of cemetery lots	1,000	1,000	2,866	1,866
Interest income	5,000	5,000	1,606	(3,394)
Licenses and permits	150	150	588	438
	<u>333,300</u>	<u>333,300</u>	<u>342,627</u>	<u>9,327</u>
<u>Expenditures</u>				
General government	68,500	68,500	65,170	3,330
Public safety	53,900	54,205	49,658	4,547
Sanitation	89,000	89,000	88,529	471
Drains	31,500	31,500	30,853	647
Cemetery	26,000	26,000	23,898	2,102
Highways and streets	64,400	64,400	50,563	13,837
	<u>333,300</u>	<u>333,605</u>	<u>308,671</u>	<u>24,934</u>
Excess of revenues over (under) expenditures	0	(305)	33,956	34,261
Fund balance - beginning of year	<u>285,038</u>	<u>285,038</u>	<u>285,038</u>	<u>0</u>
Fund balance - end of year	<u>\$ 285,038</u>	<u>\$ 284,733</u>	<u>\$ 318,994</u>	<u>\$ 34,261</u>



WEINLANDER FITZHUGH

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September 7, 2007

Township Board
Township of Fairgrove
Tuscola County, Michigan

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Financial Statement Presentation

As part of our consideration of the internal control over financial reporting, we as auditors are not allowed to be considered to be part of the Township's internal controls. In taking this required position, we must consider whether the Township has the ability, on its own, to monitor and report financial activity in accordance with our professional standards without auditor intervention.

The Township uses software to generate financial statements as a management tool to monitor the financial status of the Township, prepare budgets and to compare current financial trends to historical information which is appropriate for the Township. Due to the complexity of the required government-wide financial statements and related note disclosures, the Township does not demonstrate the expertise to properly report in accordance with U.S. generally accepted accounting principles without auditor intervention.

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WEINLANDER FITZHUGH

Township Board
Township of Fairgrove
September 7, 2007
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Segregation of duties

One of the strongest controls in an internal control system is known as "segregation of duties." This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting function acts as a check and balance.

As is common in many small organizations, there is often only a few people, sometimes only one person, performing the accounting and financial functions. And it is also common to have these individuals concentrate their efforts in one area. While this is usually more cost efficient, it lends for a weak internal control system. There are generally insufficient checks and balances in place.

This is the situation with the Township of Fairgrove. Due to limited staff size, the Township has a lack of segregation of duties with respect to the cash receipts accounting functions because the duties are centralized with one individual.

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