FINANCIAL STATEMENTS

TOWNSHIP OF HADLEY
LAPEER COUNTY, MICHIGAN

June 30, 2005

TOWNSHIP BOARD

WILLIAM DUTKO - SUPERVISOR

MARY PAINTER - CLERK

LLOYD BROECKER - TREASURER

RICHARD BRANDT - TRUSTEE

PAUL BIGLER - TRUSTEE

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Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

LOCAL AUDIT & FINANCE DIV.

Local Government Type	Local Government Name	County
☐ City ☑ Township ☐ Village ☐ Other	Township of Hadley	Lapeer

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
11/22/05	11/22/05	12/30/05

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☑ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)			
Robson & McCallum			
Street Address	City	State	ZIP
624 W. Nepessing Street - Suite 106	Lapeer	MI	48446
Accountant Signature		Date	
Carole A Robson CPA		12/30/05	

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Certified Public Accountants

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Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

INDEPENDENT AUDITOR'S REPORT

Township Board
Township of Hadley
4293 Pratt Road
PO Box 227
Hadley, Michigan 48440

We have audited the accompanying financial statements of the governmental activities, and the aggregate remaining fund information of Hadley Township (the "Township"), Lapeer, Michigan, as of and for the year ended June 30, 2005, 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 generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Bulletin for Audits of Local Units of Government in Michigan. 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Hadley at June 30, 2005 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We applied limited procedures, consisting 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hadley Township's basic financial statements. The accompanying other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robson and McCallum

Robson and McCallum
November 22, 2005

TOWNSHIP OF HADLEY
LAPEER COUNTY
LAPEER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the Township Board of the Hadley Township, we offer readers of the Township's financial statements this narrative overview and analysis of the Township's financial activities of Hadley Township for the fiscal year ended June 30, 2005.

Financial Highlights

The assets of Hadley Township exceeded its liabilities at the close of the most recent fiscal year by $2,764,608, of this amount, $969,769 may be used to meet the Township's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of $862,345 a decrease of $104,630 in comparison with the prior year.

At the end of the current fiscal year, unreserved fund balance for the General Fund was $523,290, or 88% of total general fund expenditures before equipment purchases. Unreserved fund balance for the Fire Fund was $202,998, or 202% of total Fire Fund expenditures. Unreserved fund balance for the First Responders Fund was $136,057 or 238% of total First Responders Fund expenditures.

The Township's total liabilities decreased by $83,786 during the current fiscal year. The key factor in this decrease is note principle reduction of $90,000 - the balance due for the Township office building.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a similar to a private-sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all of a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the Township include general government, public safety, road projects, health, and culture/recreation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental 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. Such information may be useful in evaluating a government's near-term financing requirements.

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

Hadley Township maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund and First Responders Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Township adopts an annual appropriations budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with this budget.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8 through 13 of this report.

Government-Wide Financial Analysis

	Governmental Activities	
Assets		
Current and Other Assets	$1,025,451	
Capital Assets	2,424,838	
Total Assets		$3,450,289
Liabilities		
Long-Term Liabilities	$ 540,000	
Other Liabilities	145,681	
Total Liabilities		$ 685,681
Net Assets		$2,764,608
Invested in Capital Assets Net of Related Debt	$1,794,838	
Restricted for Health and Public Safety	339,055	
Unrestricted/Undesignated	630,715	
Total Net Assets	$2,764,608	

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to $2,424,838 (net of accumulated depreciation). As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of Hadley Township, assets exceeded liabilities by $2,764,608 at the close of the most recent fiscal year. The most significant portion of the Township's net assets (65%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Township used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The total increase in the Township's investment in capital assets for the current fiscal year was $305,245.

Major capital assets events during the current fiscal year included the following: a rescue truck, office equipment and major improvements on the old mill.

Long-term debt. At the end of the current fiscal year, the Township had total unsecured debt outstanding of $630,000. Of this amount, 100% comprises debt backed by the full faith and credit of the government. Additional information on the Township's long-term debt can be found in the notes on page 14.

Economic Factors and Next Year's Budget and Rates

State-shared revenues are expected to remain about the same in the 2005-2006 fiscal year unless unemployment increases. The Township's millage rate was again reduced by the Headlee Amendment rollback. These factors were considered in preparing the Township's budget for the 2005-2006 fiscal year. The Township has presented a balanced budget in the 2005-2006 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of Hadley Township's finances for all those with an interest in the township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Supervisor of Hadley Township at 4293 Pratt Road, PO Box 227, Hadley, MI 48440.

STATEMENT OF NET ASSETS
HADLEY TOWNSHIP - LAPEER COUNTY, MICHIGAN
June 30, 2005

	GOVERNMENTAL ACTIVITIES	
ASSETS		
Current Assets:		
Cash and Cash Equivalents		$ 908,201
Receivables		
Other Governments	$ 107,425	
Taxes	7,268	
Internal Balances	510	
Township Officials	2,047	117,250
Total Current Assets		$1,025,451
Capital Assets:		
Land	$ 274,007	
Buildings and Improvements	1,666,634	
Equipment	410,442	
Vehicles	719,587	
Total Capital Assets	$3,070,670	
Less: Accumulated Depreciation	645,832	
Net Capital Assets		2,424,838
Total Assets		$3,450,289
LIABILITIES		
Accounts Payable	$ 9,549	
Accrued Payroll	2,028	
Deposits	39,684	
Due to Others	4,420	
Current Portion of Long-Term Debt	90,000	
Non-Current Liabilities		
National City Note	540,000	
Total Liabilities		685,681
NET ASSETS		$2,764,608

NET ASSETS - DETAIL	
Invested in Capital Assets - net of debt	$1,794,838
Restricted for Health and Public Safety	339,055
Unrestricted/Undesignated	630,715
Total Net Assets	$2,764,608

See Auditor's Report and Notes to the Financial Statements.

BALANCE SHEET
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2005

	GENERAL FUND	FIRE FUND	FIRST RESPONDERS	TOTAL
ASSETS				
Cash and Cash Equivalents	$ 568,610	$ 203,218	$ 136,373	$ 908,201
Taxes Receivable	6,213	688	367	7,268
Due from Township Officials	2,047			2,047
Due from Other Funds	510			510
Total Assets	$ 577,380	$ 203,906	$ 136,740	$ 918,026
LIABILITIES				
Accounts Payable	$ 9,324	$ 225	$ -0-	$ 9,549
Accrued Wages	662	683	683	2,028
Deposits	39,684			39,684
Due to Others	4,420			4,420
Total Liabilities	$ 54,090	$ 908	$ 683	$ 55,681
FUND EQUITY				
Undesignated - Fund Equity	$ 523,290	$ 202,998	$ 136,057	$ 862,345
Total Liabilities and Fund Equity	$ 577,380	$ 203,906	$ 136,740	$ 918,026

See Auditor's Report and Notes to the Financial Statements.

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
JUNE 30, 2005

Fund Balances - Total Governmental Funds		$ 2,764,608
Amounts reported for governmental activities in Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore; are not reported in the governmental funds		(107,425)
Governmental Capital Assets	$ 3,070,670	
Less: Accumulated Depreciation	645,832	(2,424,838)
Receivables recognized using the full accrual method of accounting that are not considered current financial resources for Governmental Fund Accounting		
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		630,000
Net Assets of Governmental Activities		$ 862,345

See Auditor's Report and Notes to the Financial Statements.

STATEMENT OF ACTIVITIES
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANT REVENUE	NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
General Government	$ 335,670	$ 16,960	$ 2,100	$ (316,610)
Public Safety	198,936	29,684	575	(168,677)
Public Works	112,347			(112,347)
Health	85,865			(85,865)
Parks and Recreation	5,597			(5,597)
Library	4,566	1,000		(3,566)
Interest on Long-Term Debt	26,299			(26,299)
Total Primary Government Activities	$ 769,280	$ 47,644	$ 2,675	$ (718,961)

GENERAL REVENUES	
Property Taxes	$ 396,997
Federal Grants	131,850
State Shared Revenue	318,793
Unrestricted Investment Earnings	21,540
Fees and Licenses	6,662
Other	12,572
Change in Net Assets	$ 169,453
Net Assets - July 1, 2004	2,595,155
Net Assets - June 30, 2005	$2,764,608

See Auditor's Report and Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2005

	GENERAL FUND	FIRE FUND	FIRST RESPONDER FUND	TOTAL GOVERNMENT FUNDS
RESOURCES (Inflows)				
Property Taxes	$ 168,545	$ 147,251	$ 81,201	$ 396,997
Federal Grant		131,850		131,850
State Shared Revenue	315,773			315,773
Fees and Licenses	6,662			6,662
Charges for Services	29,679	5		29,684
Rent	17,960			17,960
Interest	11,890	7,561	2,089	21,540
Other	12,572			12,572
Sale of Fixed Assets		1,500		1,500
Private Donations	2,100	575		2,675
Total Revenues	$ 565,181	$ 288,542	$ 83,290	$ 937,213
CHARGES TO APPROPRIATIONS (Outflows)				
Current:				
General Government	$ 284,375	$ -0-	$ -0-	$ 284,375
Public Health	27,930		47,490	75,420
Public Safety	37,814	100,230		138,044
Public Works	112,347			112,347
Parks and Recreation	5,547			5,547
Library	4,566			4,566
Capital Outlay	7,481	288,110	9,654	305,245
Debt Service	116,299			116,299
Total Charges to Appropriations	$ 596,359	$ 388,340	$ 57,144	$ 1,041,843
Revenues Over (Under) Expenditures	$ (31,178)	$ (99,598)	$ 26,146	$ (104,630)
FUND BALANCE - July 1	554,468	302,596	109,911	966,975
FUND BALANCE - June 30	$ 523,290	$ 202,998	$ 136,057	$ 862,345

See Auditor's Report and Notes to the Financial Statements.

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

HADLEY TOWNSHIP - LAPEER COUNTY, MICHIGAN
Year ended June 30, 2005

Net change in fund balance - Total Governmental Funds	$ (104,630)
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Difference in revenue using the full accrual method of accounting that is not required for governmental fund accounting.	(3,020)
Governmental Funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	187,103
Governmental Funds report the repayment of debt as an expenditure. The repayment of debt reduces the liability on the Statement of Net Assets.	90,000
Change in Net Assets of Governmental Activities	$ 169,453

See Auditor's Report and Notes to the Financial Statements.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2005

ASSETS	
Cash	$ 510
Total Assets	$ 510
LIABILITIES	
Due to Other Funds	$ 510
Total Liabilities	$ 510

See Auditor's Report and Notes to the Financial Statements.

The Township of Hadley is a general law Township operating under Article 7, Section 17 of the Michigan Constitution of 1963 and under the revised statutes of 1846, as amended. Hadley Township is governed by a Board consisting of the Supervisor, Clerk, Treasurer and two Trustees. The Township provides its residents with public safety (police, fire, inspections, and planning and zoning), highways and streets, public improvements, parks and recreation and general administrative services.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of Hadley Township (the "Township"), conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant accounting policies of the Township are described below.

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

In the fiscal year 2004, the Township adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34 - Basic Financial Statements - and Management's Discussion and analysis - for State and Local Governments.

Statement No. 37 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus.

Statement No. 34 - (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the Township's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the Township's statement of net assets includes both non-current assets and non-current liabilities of the Township, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group.

Statement No. 34 also requires certain required supplementary information in the form of Management's Discussion and Analysis, which includes an analytical overview of the Township's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Statement No. 37 amends GASB Statements No. 21 and No. 34. The amendments to Statement 21 are necessary, because of the changes to the fiduciary fund structure required by Statement 34. Generally, escheat property that was reported in an expendable trust fund in the previous model should be reported in a private purpose trust fund under Statement 34. Additionally, the amendments either, (1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent applications, or (2) modify other provisions that the GASB Board believes may have unintended consequences in some circumstances. This statement became effective for the Township in fiscal year 2004.

The above statements did not affect the Fund Balance of the Township.

SCOPE OF REPORTING ENTITY:

In accordance with the provisions of the Governmental Accounting Standards Board Statement #14, "Defining the Governmental Report Entity", the financial statements of the Township of Hadley contain all the Township's executive or legislative branches. Control by or dependence on the Township was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligations of the Township to finance any deficits that may occur, receipt of significant subsidies from the Township, disposition of surplus funds, and the scope of public service.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: (1) charges to customers or applicants whose purchase, use or directly benefit from goods, services, or privileges provided by a given program; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

FUND FINANCIAL STATEMENTS:

The Township segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The accounts of the government are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Township are recorded in separate funds, categorized as follows:

GOVERNMENTAL FUNDS:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments for major capital projects) that are legally restricted to expenditures for specified purposes.

Fiduciary Funds - Fiduciary Funds include expendable trust and nonexpendable trust and agency funds. The measurement focus of the expendable trust fund is the same as for governmental funds. The measurement focus of the nonexpendable trust is based upon determination of net income, financial position and changes in financial position. The generally accepted accounting principles applicable to nonexpendable trust and agency funds are those similar to businesses in the private sector.

Agency funds are purely custodial (assets equal liabilities) and thus, do not involve measurement of results of operations and are used to account for assets held by the Township as an agent for individuals, private organizations, other governments and/or other funds.

MEASUREMENT FOCUS\BASIS OF ACCOUNTING:

Measurement Focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time liability is incurred.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income, and intergovernmental revenues. Sales taxes collected and held by the State at year-end on behalf of the Township are also recognized as revenue. All other Governmental Fund Type revenues are recognized when received.

Enterprise funds distinguish operating revenue and expense from non-operating items. Operating revenue and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of our Enterprise Fund relates to charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

CASH AND INVESTMENTS:

Deposits are carried at cost. Deposits are in one financial institution in the Township's name. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in 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; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money.

PROPERTY TAXES:

Property taxes are levied each December 1st on the state equalized value of property located in the Township as of the preceding December . Taxable values are based on assessed values which are established annually and equalized by the State at an estimated 50% of current market value.

The 2004 State taxable valuation of the Township totaled $188,814,147; ad valorem taxes levied consisted of .8903 mills for operating purposes, .7799 mills for fire protection, and .4301 for first responders.

The Township bills and collects Township property taxes and also taxes for the county and school districts within its boundaries. Collections and remittances of the county and school taxes are accounted for in the Current Tax Collection Func. Township property tax revenues are recognized as revenues in the fiscal year levied.

Property taxes levied on December 1st are payable without penalty through February 14th. As of March 1st, unpaid taxes attach as an enforceable lien on the property. Delinquent taxes are purchased by the County of Lapeer.

PROPERTY AND EQUIPMENT:

All fixed assets are valued at historical cost or estimated historical costs if actual figures are not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

CAPITAL ASSETS:

Capital assets which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Governmental	
Buildings and Improvements	5 - 50 Years
Equipment	5 - 20 Years
Vehicles	5 - 20 Years

NET ASSETS:

Net Assets represent the difference between assets and liabilities. Net Assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

USE OF ESTIMATES:

The preparation of basic financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

BUDGETARY AND LEGAL COMPLIANCE:

BUDGETARY DATA:

The following procedures were completed in establishing the budgetary data reflected in the financial statements:

The modified accrual based budget was legally enacted on a departmental (activity) basis through the passage of a resolution for the general fund, by total for the fire fund and the first responder fund.

The budget was used by the Township Board as a management tool during the year for all budgetary funds. Any revisions that altered the total expenditures of any department were approved by the Township Board.

Budget appropriations lapse at year end, except for approved contracts and certain federal grants which are appropriated on a contract (grant) or entitlement length basis.

The original budget was amended during the year in compliance with applicable State laws. The budget to actual expenditures in the financial statements represent the final budget as amended by the Township Board.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

P.A. 621 of 1978, Section 18 (1), 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 departmental (activity) basis.

DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS: (Continued)

Operating budgets were overexpended as follows:

	BUDGET	ACTUAL	VARIANCE
General Fund			
Treasurer	$ 27,000	$ 31,498	$ (4,498)

CASH AND INVESTMENTS:

The Township's deposits are in accordance with statutory authority. At June 30, 2005, the balance sheet carrying amount of cash deposits was $908,139. The bank balance as of June 30, 2005 was $937,249 of which $100,000 was covered by FDIC insurance. Cash deposits are classified in risk category number three.

The combined balance sheet carrying amount of cash, cash equivalents, and investments consists of the following:

	CASH AND CASH EQUIVALENTS
Bank Deposits (Checking, Savings and Time Certificate)	$ 510,324
Mutual Fund (Government)	397,877
Total Reported On Balance Sheet	$ 908,201

In accordance with GASB Statement 3, investments are classified into three categories of credit 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.

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).

For the fiscal year ended June 30, 2005, the Township invested $397,877 in governmental obligation money market funds. Since the mutual fund does not involve a transferrable financial instrument, it is not categorized into risk categories.

COMMON CHECKING ACCOUNT:

The cash balances reported in each fund as of June 30, 2005 are as follows:

FUND	CHECKING
General Fund	$ 170,671
Fire Fund	203,218
First Responders	109,514
Total	$ 483,403

DUE FROM TOWNSHIP OFFICIALS

The Township provides a group health insurance plan for employees who elect to participate but does not cover any of the costs. The Township pays the premium and the employees reimburse the Township the following month.

DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS: (Continued)

CAPITAL ASSETS:

CAPITAL ASSET ACTIVITY OF THE PRIMARY GOVERNMENT FOR THE CURRENT YEAR AS FOLLOWS:

	BALANCE 7/01/04	ADDITIONS	DEDUCTIONS	BALANCE 6/30/05
Capital Assets Not Being Depreciated				
Land	$ 274,007	$ -0-	$ -0-	$ 274,007
Capital Assets Being Depreciated				
Building and Improvements	$1,663,564	$ 3,070	$ -0-	$ 1,666,634
Equipment	396,377	14,065		410,442
Vehicles	489,073	288,110	57,596	719,587
Total Capital Assets Being Depreciated	$2,549,014	$ 305,245	$ 57,596	$ 2,796,663
Less Accumulated Depreciation	$ 579,246	$ 114,855	$ 48,269	$ 645,832
Net Capital Assets Being Depreciated	1,969,768	190,390	9,327	2,150,831
Total Governmental Activity Assets, Net	$2,243,775	$ 190,390	$ 9,327	$ 2,424,838

Depreciation expense charged as direct expense to programs of the primary government:

General Government	$ 51,860
Public Safety	52,550
Public Health	10,445
	$ 114,855

PENSION PLAN:

The Township has adopted the Manufacturer's Life Insurance Company's prototype defined contribution plan. Initially effective, June 1, 1969, the plan is 100% funded by the Township. The plan is available to all elected officials and hourly employees who work more than 20 hours per week. Employer contributions are 20% of compensation, plus plan costs. In addition, each employee can elect to make voluntary after-tax contributions of 1% to 5% of compensation.

During the year, the Township's required and actual contributions were $18,790 which was 20% of its current-year covered payroll. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

RISK FINANCING:

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and automobile accidents. To cover these risks, the Township participates in the Michigan Municipal Liability and Property Pool. The Township pays an annual premium for this coverage.

The Michigan Municipal Liability and Property Pool has effectively retained all risk. The Township has maintained the same level of coverage as compared to the prior year. No instances of settlements exceeding insurance coverage for the past three years have been noted.

DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS: (Continued)

GROUND LEASE AGREEMENT:

On November 1, 1995, the Township entered into a five year, $600 per month, ground lease agreement with Ameritech. Providing Ameritech is not in default, they have the option to extend the term of the lease for four additional five year periods at the following rates:

Years 1 through 5	$ 600	$ 7,200
Years 6 through 10	800	9,600
Years 11 through 15	900	10,800
Years 16 through 20	1,000	12,000

GENERAL LONG-TERM DEBT:	BALANCE 6/30/05
Unsecured note dated 06/01/2002 in the amount of $900,000 to finance the Township Hall, principle payments of $90,000 plus interest at 3.61% are due on June 1st of each year	$ 630,000

The annual principle and interest requirements through maturity as of June 30, 2005 are as follows:

06/01/2006	113,058.88
06/01/2007	109,764.75
06/01/2008	106,515.75
06/01/2009	103,176.50
06/01/2010	99,882.38
06/01/2011	96,588.25
06/01/2012	93,303.15
Total	$722,289.66

INTERFUND RECEIVABLES/PAYABLES:

RECEIVABLE FUND	AMOUNT	PAYABLE FUND	AMOUNT
General	$510	Current Tax	$510

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
FUND BALANCE - July 1, 2004	$ 554,468	$ 554,468	$ 554,468	$ -0-
RESOURCES (Inflows)				
Property Taxes	168,000	168,000	168,545	545
State Shared Revenue	300,000	300,000	315,773	15,773
Assessments	5,031	5,031	-0-	(5,031)
Fees and Licenses	7,000	7,000	6,662	(338)
Charges for Services	15,000	15,000	29,679	14,679
Rent	19,000	19,000	17,960	(1,040)
Interest	2,000	2,000	11,890	9,890
Other	1,000	1,000	12,572	11,572
Private Donations			2,100	2,100
Amounts Available for Appropriations	$1,071,499	$1,071,499	$1,119,649	$ 48,150
CHARGES TO APPROPRIATIONS (Outflows)				
Current:				
Trustees	$ 11,000	$ 11,000	$ 9,760	$ 1,240
Supervisor	35,000	30,000	28,682	1,318
Elections	6,000	8,000	7,091	909
Assessor	34,000	34,000	33,357	643
Clerk	35,000	30,000	29,292	708
Board of Review	2,500	3,500	3,133	367
Treasurer	38,000	27,000	31,498	(4,498)
Township Hall	50,000	44,000	40,091	3,909
Cemetery	10,000	8,000	3,500	4,500
Township Office	156,500	138,400	97,971	40,429
Total General Government	378,000	333,900	284,375	49,525
Public Health	28,000	28,000	27,930	70
Public Safety	38,000	43,000	37,814	5,186
Public Works	104,500	155,100	112,347	42,753
Parks and Recreation	9,000	18,500	5,547	12,953
Library	6,000	6,000	4,566	1,434
Capital Outlay	8,000	8,000	7,481	519
Debt Service:				
Principle		90,000	90,000	-0-
Interest		26,299	26,299	-0-
Total Charges to Appropriations	$ 571,500	$ 708,799	$ 596,359	$ 112,440
FUND BALANCE - June 30, 2005	$ 499,999	$ 362,700	$ 523,290	$ 160,590

See Auditor's Report and Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - FIRE FUND
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
FUND BALANCE - July 1, 2004	$ 302,596	$ 302,596	$ 302,596	$ -0-
RESOURCES (Inflows)				
Property Taxes	$ 146,000	$ 146,000	$ 147,251	$ 1,251
Federal Grant	131,850	131,850	131,850	-0-
Charges for Services			5	5
Interest			7,561	7,561
Sale of Fixed Assets			1,500	1,500
Donations			575	75
Total Amount Available for Appropriation	$ 580,446	$ 580,446	$ 591,338	$ 10,392
CHARGES TO APPROPRIATIONS (Outflows)				
Salaries and Wages	$ -0-	$ -0-	$ 49,001	$ -0-
Office Supplies			202	
Operating Supplies			4,384	
Telephone			2,824	
Printing and Publishing			292	
Insurance			17,809	
Public Utilities			5,568	
Repairs and Maintenance			15,033	
Miscellaneous			1,226	
Education Training			3,891	
Capital Outlay			288,110	
Total Charges to Appropriations	$ 165,280	$ 406,380	$ 388,340	$ 18,040
FUND BALANCE - June 30, 2005	$ 415,166	$ 174,066	$ 202,998	$ 28,932

(Budget is adopted by total appropriations)

See Auditor's Report and Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - FIRST RESPONDERS
TOWNSHIP OF HADLEY - LAPEER COUNTY, MICHIGAN
Year Ended June 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
FUND BALANCE - July 1, 2004	$ 109,911	$ 109,911	$ 109,911	$ -0-
RESOURCES (Inflows)				
Property Taxes	$ 81,000	$ 81,000	$ 81,201	$ 201
Interest			2,089	2,089
Total Amount Available for Appropriation	$ 190,911	$ 190,911	$ 193,201	$ 2,290
CHARGES TO APPROPRIATIONS (Outflows)				
Wages	$ -0-	$ -0-	$ 35,619	$ -0-
Office Supplies			335	
Supplies			3,295	
Insurance			3,123	
Repairs and Maintenance			3,914	
Education and Training			675	
Miscellaneous			529	
Capital Outlay			9,654	
Total Charges to Appropriations	$ 77,490	$ 77,490	$ 57,144	$ 20,346
FUND BALANCE - June 30, 2005	$ 3,510	$ 3,510	$ 136,057	$ 22,636

(Budget is adopted by total appropriations)

See Auditor's Report and Notes to the Financial Statements.

ROBSON AND McCALLUM
Certified Public Accountants

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Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

Hadley Township Board
PO Box 227
Hadley, Michigan 48440

Dear Board Members:

We have audited the basic financial statements for Hadley Township (the "Township"), for the year ended June 30, 2005 and have reported our findings under separate cover. Professional standards require that we communicate certain matters to you related to our audit. These are provided below:

Our responsibility under generally accepted auditing standards - is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement, whether caused by error or by fraud. The concept of reasonable assurance indicates that we did not test all transactions; therefore, there is a risk that material errors, fraud, or illegal acts may have occurred that we did not detect in our audit.

Budget Amendments - should include all projected expenditures through the end of the fiscal year. Entering vendor invoices into the accounting records as they are incurred will facilitate the matching of expenditures to appropriations regardless of payment due dates.

Thank you for the opportunity to serve as the Township's auditor. We are available to answer questions and otherwise assist in implementing the foregoing recommendation, the appropriateness of accounting policies, and the application of those policies.

Robson and McCallum

Robson and McCallum, CPA's
November 22, 2005