

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 Watson Township	County Allegan County
Fiscal Year End March 31, 2007	Opinion Date August 17, 2007	Date Audit Report Submitted to State September 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

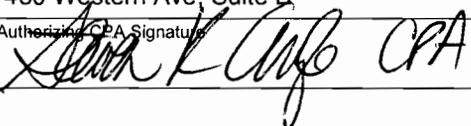
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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) Angle & Steffes, P.C.	Telephone Number 269-686-9050		
Street Address 430 Western Ave, Suite B	City Allegan	State MI	Zip 49010
Authorizing CPA Signature 	Printed Name Steven K. Angle, CPA		License Number 14653

TOWNSHIP OF WATSON

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INDEPENDENT AUDITOR'S REPORT

August 17, 2007

To the Township Board
Township of Watson
Allegan County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Watson, Allegan 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 Watson Township, Allegan County, Michigan management. Our responsibility is to express an opinion on these financial statements based on our audit.

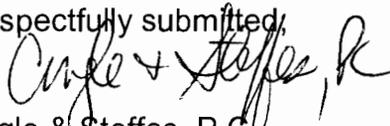
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

The Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of March 31, 2003.

The management's discussion and analysis and budgetary comparison information on pages 2 and 21 through 23 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.

Respectfully submitted,


Angle & Steffes, P.C.
Certified Public Accountants

MANAGEMENT & DISCUSSION ANALYSIS

As management of Watson Township, this report is a narrative overview and analysis of the financial activities for the fiscal year end March 31, 2007.

Financial Highlights

Assets of Watson Township exceeded its liabilities at the close of the fiscal year 2007 by \$503,341, all of this amount, (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The reason for the large increase in revenue is a \$326,469 installment loan to build a fire/substation and upgrades to the Township hall and office.

The unrestricted net assets of the Road Fund increased due to the budget process. The budget process was designed to use the major portion for major road projects. Fiscal year 2007 ending fund balance of \$79,416 reflected road projects not completed. This was an increase of \$75,571 over the prior year in which funds were almost depleted.

The Township's net assets continue to remain stable with new residents moving in, building permits increased by 3%, and SEV increased 9.2% in the amount of \$7,680,200.

Watson Township's total governmental revenue increased by approximately \$7,680, which reflects a change in our revenue structure by increasing our fees and adding an administration fee to the tax bill.

Expenses decreased approximately \$9,741, primarily the result of wage freezes and a decrease in expenditures.

Township Funds

The General Fund pays for most of the Township's government expenses. The most significant change for the General Fund is taking the Fire & EMS out of the budget and going to a Special Assessment for Fire/EMS.

In 2006 Watson initiated a Special Assessment of 1 mill for Fire Department Operations and Equipment and Emergency Operations and Equipment. Some are co-owned with other government units and some are contracted out from other agencies due to the rural nature of our Township. With the increased cost of equipment and services it was a necessary form of revenue.

The special Property Tax Major Road Improvement Fund was almost depleted with projects in 05-06. For the 06-07 year fund increased \$79,416 due to savings for a major two mile road project.

The special Property Tax Dust Control Fund is depleted each budget year to give the residents the most dust control available.

Building Department Fund - revenue is from construction permits. Expenses are managing the fund.

Economic Factors and Next Year's Budgets

New budget deficits in State shared sales tax are resulting in State budget cuts to local governments. With State shared sales tax revenue amounts decreasing we must be very budget conscious.

Even with the economy slowdown Watson still has increased SEV; we should have a small increase in property tax revenue, road revenue and dust control revenue. However, we still need to continue to maintain a conservative budget.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information we welcome you to contact the Township Office.

**TOWNSHIP OF WATSON
GOVERNMENT WIDE STATEMENT OF NET ASSETS
MARCH 31, 2007**

	Primary Government	
	Governmental Activities	Total
ASSETS		
Cash and cash equivalents	\$ 201,454	\$ 201,454
Investments	113,903	113,903
Receivables - net	49,127	49,127
Prepays	1,137	1,137
Capital assets - net	420,690	420,690
 Total Assets	 786,311	 786,311
LIABILITIES		
Accounts payable	5,970	5,970
Accrued and other liabilities	500	500
Noncurrent Liabilities		
Due within one year	28,994	28,994
Due in more than one year	247,506	247,506
 Total Liabilities	 282,970	 282,970
NET ASSETS		
Invested in Capital Assets		
Net of related debt	144,190	144,190
Restricted For		
Streets and highways	150,517	150,517
Public safety	30,751	30,751
Park	2,839	2,839
Unrestricted	175,044	175,044
 Total Net Assets	 \$ 503,341	 \$ 503,341

The Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF WATSON
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
					Governmental Activities	Primary Government	
						Business-Type Activities	Total
Primary Government							
General government	\$ 133,078	\$ 4,120	\$ 0	\$ 0	\$ (128,958)	\$ 0	\$ (128,958)
Public safety	104,274	21,943	0	0	(82,331)	0	(82,331)
Public works	55,469	0	0	0	(55,469)	0	(55,469)
Health and welfare	6,000	0	0	0	(6,000)	0	(6,000)
Community/Economic development	14,594	3,045	0	0	(11,549)	0	(11,549)
Recreation and culture	0	0	0	0	0	0	0
Total Governmental Activities	313,415	29,108	0	0	(284,307)	0	(284,307)
Total Primary Government	\$ 313,415	\$ 29,108	\$ 0	\$ 0	(284,307)	0	(284,307)
General Revenues							
Property taxes					239,219	0	239,219
State aid revenues					149,671	0	149,671
Unrestricted investment earnings/losses					9,185	0	9,185
Rental income					1,000	0	1,000
Miscellaneous					3,212	0	3,212
Transfers					0	0	0
Total General Revenues-Special Items and Transfers					402,287	0	402,287
Change in Net Assets					117,980	0	117,980
Net Assets-Beginning					385,361	0	385,361
Net Assets-Ending					\$ 503,341	\$ 0	\$ 503,341

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF WATSON
GOVERNMENTAL FUND BALANCE SHEET
March 31, 2007

	General Fund	Road Fund	Fire Equip Fund	Non-Major Governmental Fund	Total Governmental Fund
ASSETS					
Cash and cash equivalents	\$ 36,804	\$ 137,940	\$ 26,210	\$ 500	\$ 201,454
Investments	113,903	0	0	0	113,903
Receivables - net	28,406	12,577	4,541	0	45,524
Due from other funds	3,603	0	0	0	3,603
Prepays	1,137	0	0	0	1,137
Total Assets	<u>183,853</u>	<u>150,517</u>	<u>30,751</u>	<u>500</u>	<u>365,621</u>
LIABILITIES					
Accounts payable	5,970	0	0	0	5,970
Due to other funds	0	0	0	500	500
Total Liabilities	<u>5,970</u>	<u>0</u>	<u>0</u>	<u>500</u>	<u>6,470</u>
FUND BALANCES					
Reserved for					
Road projects	0	150,517	0	0	150,517
Public safety	0	0	30,751	0	30,751
Park	2,839	0	0	0	2,839
Unreserved	175,044	0	0	0	175,044
Total Fund Balances	<u>\$ 177,883</u>	<u>\$ 150,517</u>	<u>\$ 30,751</u>	<u>\$ 0</u>	<u>\$ 359,151</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	420,690
Debt principal repayments and proceeds of debt are not financial resources and are not reported in the funds.	(276,500)
Net Assets of Governmental Activities	<u>\$ 503,341</u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF WATSON
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
March 31, 2007

	General Fund		Road Fund		Fire Equip Fund		Non-Major Governmental Funds		Total Governmental Funds	
		\$		\$		\$		\$		
Revenues										
Taxes and penalties	\$	56,171	\$	134,633	\$	48,415	\$	0	\$	239,219
Licenses and permits		0		0		0		20,573		20,573
State aid		149,671		0		0		0		149,671
Charges for services		8,535		0		0		0		8,535
Interest and rentals		8,977		872		336		0		10,185
Other revenue		3,212		0		0		0		3,212
Total Revenues		226,566		135,505		48,751		20,573		431,395
Expenditures										
Current										
General government		107,893		0		0		0		107,893
Public safety		35,701		0		48,000		20,573		104,274
Public works		3,865		51,604		0		0		55,469
Health and welfare		6,000		0		0		0		6,000
Community/Economic development		14,594		0		0		0		14,594
Debt service		0		0		0		40,131		40,131
Capital outlay		1,950		0		0		0		1,950
Total Expenditures		170,003		51,604		48,000		60,704		330,311
Excess of Revenues Over (Under) Expenditures		56,563		83,901		751		(40,131)		101,084
Other Financing Sources (Uses)										
Transfers in		0		0		30,000		40,131		70,131
Transfers (out)		(70,131)		0		0		0		(70,131)
Total Other Financing Sources (Uses)		(70,131)		0		30,000		40,131		0
Excess of Revenue and Other Sources Expenditures and Other Uses		(13,568)		83,901		30,751		0		101,084
Fund Balance-April 1, 2006		191,451		66,616		0		0		258,067
Fund Balance-March 31, 2007	\$	177,883	\$	150,517	\$	30,751	\$	0	\$	359,151

The Notes to Financial Statements are an integral part of this

**TOWNSHIP OF WATSON
FIDUCIARY FUNDS-STATEMENT OF NET ASSETS
MARCH 31, 2007**

	<u>Agency Fund (Property Tax Collection Fund)</u>
ASSETS	
Cash and cash equivalents	<u>\$ 3,102</u>
Total Assets	<u><u>\$ 3,102</u></u>
LIABILITIES	
Accounts payable	\$ 0
Due to other funds	<u>3,102</u>
Total Liabilities	<u><u>\$ 3,102</u></u>
NET ASSETS	

The Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Watson, Allegan County, Michigan is a general law Township. The Township operates under an elected Board/Supervisor form of government and provides the following services as authorized by its charter: public safety, highways and street, public improvements, cultural recreation, planning and zoning, and administrative services.

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

A. The Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 or segment. 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 or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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 proprietary fund and 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.

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 government 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 of the current period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Fire Equipment Fund are Special Revenue Funds of the Township. These funds are used to account for the proceeds of specific revenue tax millages that are legally restricted to expenditures for specified purposes.

Additionally, the government reports the following non-major fund types:

The Building Inspection and Debt Services Funds are Special Revenue Funds of the Township. The Building Inspection Fund is used to account for all resources of the Township's permits and licenses. The Debt Service Fund reflects the debt repayments of the new building addition.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

(continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule would be charges between the government's enterprise funds and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. The Township of Watson does not have enterprise funds.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Finally, the government reports the following fund types:

The Tax Collection Fund is a Fiduciary Fund accountable for assets held by the Township in a trustee or agency capacity for individuals, private organizations, other governments, and/or other funds.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments-Cash and cash equivalents 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 and the business-type 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 each July for State Education Tax, and on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent in the following September and March 1st of the respective period, at which time penalties and interest are assessed.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Inventories and Prepaid Items-Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets-Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two 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.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	30 to 40 years
Building Improvements	15 to 30 years
Roads	10 to 30 years
Fire Equipment	07 to 25 years
Vehicles	03 to 05 years
Office Equipment	05 to 07 years
Computer Equipment	03 to 07 years

Compensated Absences (Vacation and Sick Leave)-It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

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.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Government-wide financial statements differ from the Governmental fund financial statements only for the effect of the inclusion of capital assets and related outstanding debt.

Capitalized Asset Costs	\$498,178
Less Accumulated Depreciation	<u>(77,488)</u>
Capital Assets, net	420,690
Less Related Debt	<u>(276,500)</u>
Invested in Capital Assets	144,190
Governmental Fund Balances	<u>359,151</u>
Net Assets of Governmental Activities	<u>\$503,341</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1. Formal budgetary integration is employed as a management control device during the year. These budgets are adopted on a basis consistent with generally accepted accounting principles.
2. The Township Board approves, by ordinance, total budget appropriations only. Any revisions that alter the total appropriations of any fund must be approved by the Township Board, therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc.).
3. Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.
4. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds-During the year, the Local Governmental Unit did incur expenditures in certain budgeted funds which were in excess of the amounts appropriated.

Fund Deficits-The Local Governmental Unit has no accumulated fund balance deficits at this time.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit 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 local unit 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 rated 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 Local Governmental Unit Board has designated several banks for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Local Governmental Unit's deposits and investment policy are in accordance with statutory authority.

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Primary Governmental Activities</u>	<u>Total Government</u>
Cash and Cash Equivalents	\$ 201,454	\$ 201,454

The breakdown between deposits and investments is as follows:

	<u>Total Government</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 201,454
Investments in Securities, Mutual Funds and Similar Vehicles, net	113,903
Petty Cash and Cash on Hand	<u>-</u>
Total	<u>\$ 315,357</u>

The bank balance of the primary government's deposits is \$201,454, of which \$195,828 is covered by federal depository insurance.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

The Local Unit's investments are summarized below:

Oppenheimer Money Market and Unit Investment Trusts	\$ 135,342
Market Appreciation (Depreciation)	<u>(21,439)</u>
INVESTMENT - NET	<u>\$ 113,903</u>

The Township's investment fund is comprised of money market funds and two GNMA Bond reinvestment trusts. The value of these bonds fluctuate as the rates of interest at the federal reserve change. Interest and dividends earned totalled \$6,257 and net market losses of \$1,189 are reflected in the financial statement activity.

NOTE 5 - NOTE PAYABLE

The Township secured a loan from Hastings City Bank for the purpose of construction of a Township Hall addition and Fire Barn. A total of \$326,469 was borrowed. This note will be paid back over a ten year period, monthly payments of \$3,344.27, with interest accrued at a rate of 4.25%.

As of March 31, 2007, the debt outstanding was \$276,500.

Debt repayment requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007/2008	\$28,994	\$11,137	\$40,131
2008/2009	30,193	9,938	40,131
2009/2010	31,502	8,629	40,131
2010/2011	32,867	7,264	40,131
2011/2012	34,292	5,839	40,131
2012/2013	35,778	4,353	40,131
2013/2014	37,328	2,803	40,131
2014/2015	38,946	1,185	40,131
2015/2016	<u>6,600</u>	<u>35</u>	<u>6,635</u>
Total future debt requirements	\$276,500	\$51,183	\$327,683

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 6 - RECEIVABLES

Receivables as of year-end for the government's individual major, nonmajor funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are reported in the Government Wide Statement of Net Assets as follows:

	Major Funds			Non-Major and Other Funds	Total
	General Fund	Road Special Millage	Fire Equip Millage		
Taxes receivable	\$ 4,785	\$ 12,577	\$ 4,541	\$ 0	\$ 21,903
State share revenues receivable	23,621	0	0	0	23,621
Due from other funds	3,603	0	0	0	3,603
Less: allowance for uncollectible	0	0	0	0	0
Net Receivables	<u>\$ 32,009</u>	<u>\$ 12,577</u>	<u>\$ 4,541</u>	<u>\$ 0</u>	<u>\$ 49,127</u>

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 7 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 23,526	\$ 0	\$ 0	\$ 23,526
Construction in Progress	0	0	0	0
Subtotal	23,526	0	0	23,526
Capital Assets Being Depreciated				
Buildings & improvements other than building	440,254	1,340	0	441,594
Machinery and equipment	32,448	610	0	33,058
Infrastructure	0	0	0	0
Subtotal	472,702	1,950	0	474,652
Less Accumulated Depreciation for				
Buildings & improvements other than building	41,449	10,383	0	51,832
Machinery and equipment	23,246	2,410	0	25,656
Infrastructure	0	0	0	0
Subtotal	64,695	12,793	0	77,488
Net Capital Assets Being Depreciated	408,007	(10,843)	0	397,164
Governmental Activities Capital Total				
Capital Assets-Net of Depreciation	<u>\$ 431,533</u>	<u>\$ (10,843)</u>	<u>\$ 0</u>	<u>\$ 420,690</u>

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

Governmental Activities

General government	\$ 12,793
Public safety	0
Public works	0
Economic development	0
Recreation and culture	0
Total Governmental Activities	<u>\$ 12,793</u>

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 8 - INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances is as follows:

Due To/From Other Funds			
<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General	\$ 3,103	Tax Collection	\$ 3,103
General	<u>500</u>	Building & Insp	<u>500</u>
Total	<u>\$ 3,603</u>		<u>\$ 3,603</u>

Interfund Transfers			
<u>Transfers In</u>	<u>General Fund</u>	<u>Transfers (Out) Non-Major Governmental Funds</u>	<u>Total</u>
Fire Equipment Fund	\$ 30,000	\$ 0	\$ 30,000
Non-Major Governmental Fund	<u>40,131</u>	<u>0</u>	<u>40,131</u>
Total	<u>\$ 70,131</u>	<u>\$ 0</u>	<u>\$ 70,131</u>

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 9- RESERVED FUND BALANCES

General Fund

The Township sold twenty acres of land during the year ended March 31, 1995 and designated the proceeds for the purchase of land for a Township park. The reserved fund balance in the General Fund for the year ended March 31, 2007 is \$2,839.

Road Fund

Township residents approved extra voted millages for road improvements and dust control. The reserved fund balance in the Road Special Revenue Fund for the year ended March 31, 2007 is \$150,517.

Fire Equipment Fund

Township residents agreed to a one mill levy for Fire Equipment operations and purchases held by the Hopkins Fire Control Board. Watson Township is a member of this fire district, comprised of local area governmental units. This reserved fund balance is \$30,751 as of March 31, 2007.

NOTE 10 - PUBLIC SAFETY AGREEMENTS

The Township is a member of the Hopkins Area Fire Board and as a member has paid \$19,282 for the operation of this Board. Another \$48,000 was contributed for equipment purchases. The Township also pays Martin Township for an annual fire services contract of \$15,000 and the City of Otsego \$778 for fire runs. The Township contracts with Wayland Area Emergency Medical Services for \$6,000 annually.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN

The Township offers its employees a defined contribution pension plan for government employees in accordance with Section 401(a) of the Internal Revenue Code. The plan is administered through The Manufacturers Life Insurance Company by the Township clerk. The investment of the plan assets is the responsibility of the Employer.

Eligibility Requirements

All Township Board Members shall be eligible to participate in the plan upon meeting the following requirements:

1. Attaining the age of 18 but not more than 75 years.
2. There is no minimum service requirement.
3. Entry date into plan is the plan anniversary date which is January 1 of each year.

Normal Retirement Age

For purposes of determining when an Employee is eligible for normal retirement under the plan, the normal retirement age has been set at 65 years of age after the completion ten years of participation in the plan.

Early Retirement Age

The early retirement age under the plan has been established to be 55 years of age.

Contributions

The following types of contributions are provided under the plan:

1. Employer contributions will be equal to 75% of schedule below.
2. Mandatory after-tax employee contributions are required to be made at 25% of the schedule below. These mandatory employee contributions are being treated under the plan as "employer pick-up contributions" so that they can be considered as made on a "salary reduction" pre-tax basis.
3. Voluntary after-tax employee contributions are permitted under the plan in amounts ranging from 1% to 10% of compensation.

<u>Participant Annual Compensation</u>	<u>Annual Contribution</u>
Less than \$200	\$ 100
At least \$200 but less than \$400	200
At least \$400 but less than \$600	300
At least \$600 but less than \$800	400
At least \$800 but less than \$1000	500
More than \$1000	600

The Township paid \$3,000 contributions and \$180 participant fees for the fiscal year 2006/2007.

**TOWNSHIP OF WATSON
ALLEGAN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN (Continued)

Vesting and Forfeitures

1. Benefits attributable to Employer contributions shall be 100% vested upon a Participant's death, disability, normal retirement, or upon termination of the plan.
2. Upon termination of Participant's service for reasons other than those in item 1 above, the participant becomes 100% vested upon completion of twenty months of service.
3. Benefits attributable to Employer contributions shall not be forfeited if, for reasons other than retirement, death, or disability a Participant takes a distribution of any portion of his/her Mandatory After-Tax Employee Contribution Account prior to the expiration of 24 months following his/her termination of employment.
4. As of March 31, 2007, The Group Pension Plan held with John Hancock Life Insurance Company reported a total plan value of \$26,419.33.

REQUIRED SUPPLEMENTAL INFORMATION

**TOWNSHIP OF WATSON
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED MARCH 31, 2007**

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 191,451	\$ 191,451	\$ 191,451	\$ 0
Resources (Inflows)				
Property taxes	56,116	56,116	56,171	55
State aid	150,000	150,000	149,671	(329)
Licenses and permits	0	0	0	0
Charges for services	9,375	9,375	8,535	(840)
Interest and rentals	5,750	5,750	8,977	3,227
Miscellaneous revenues	2,302	2,302	3,212	910
Transfers from other funds	0	0	0	0
Amounts Available for Appropriation	414,994	414,994	418,017	3,023
Charges to Appropriations (Outflows)				
General Government				
Township board	19,225	19,125	22,314	(3,189)
Supervisor	9,900	9,900	9,900	0
Finance	300	300	500	(200)
Treasurer	10,000	10,000	9,900	100
Assessing	16,800	16,800	17,530	(730)
Elections	5,750	5,750	4,120	1,630
Clerk	10,000	10,000	9,954	46
Board of review	795	795	754	40
Other General Government				
Building and grounds	15,300	19,910	19,644	266
Attorney	6,000	1,000	266	734
Cemetery	15,475	14,179	13,011	1,168
Public Safety				
Fire	35,375	35,375	35,701	(326)
Building inspections	0	0	0	0
Public Works				
Roads	0	0	0	0
Transfer station	3,725	4,007	3,865	142
Health and welfare	6,000	6,000	6,000	0
Community/Economic development	11,275	14,075	14,594	(519)
Capital outlay	800	800	1,950	(1,150)
Transfers to other funds	48,000	48,000	70,131	(22,131)
Total Charges to Appropriations	214,720	216,016	240,134	(24,118)
Budgetary Fund Balance-March 31	\$ 200,274	\$ 198,978	\$ 177,883	\$ (21,095)

**TOWNSHIP OF WATSON
BUDGETARY COMPARISON SCHEDULE
MAJOR ROAD FUND
YEAR ENDED MARCH 31, 2007**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Beginning of Year Fund Balance	\$ 66,616	\$ 66,616	\$ 66,616	\$ 0
Resources (Inflows)				
Property taxes	128,150	128,150	134,633	\$ 6,483
State aid	0	0	0	\$ 0
Interest	100	100	872	\$ 772
Transfers In	<u>3,000</u>	<u>3,000</u>	<u>0</u>	<u>\$ (3,000)</u>
Amounts Available for Appropriation	<u>197,866</u>	<u>197,866</u>	<u>202,121</u>	<u>4,255</u>
Charges to Appropriation (Outflows)				
Public Works	<u>39,375</u>	<u>39,375</u>	<u>51,604</u>	<u>(12,229)</u>
Total Charges to Appropriations	<u>39,375</u>	<u>39,375</u>	<u>51,604</u>	<u>(12,229)</u>
Budgetary Fund Balance-March 31	<u>\$ 158,491</u>	<u>\$ 158,491</u>	<u>\$ 150,517</u>	<u>\$ (7,974)</u>

**TOWNSHIP OF WATSON
BUDGETARY COMPARISON SCHEDULE
MAJOR FIRE EQUIP FUND
YEAR ENDED MARCH 31, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Beginning of Year Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
Resources (Inflows)				
Property taxes	48,500	48,500	48,415	\$ (85)
State aid	0	0	0	\$ 0
Interest	0	0	336	\$ 336
Transfers In	<u>45,000</u>	<u>45,000</u>	<u>30,000</u>	<u>\$ (15,000)</u>
Amounts Available for Appropriation	<u>93,500</u>	<u>93,500</u>	<u>78,751</u>	<u>(14,750)</u>
Charges to Appropriation (Outflows)				
Contributions for Capital Equipment	<u>48,000</u>	<u>48,000</u>	<u>48,000</u>	<u>0</u>
Total Charges to Appropriations	<u>48,000</u>	<u>48,000</u>	<u>48,000</u>	<u>0</u>
Budgetary Fund Balance-March 31	<u>\$ 45,500</u>	<u>\$ 45,500</u>	<u>\$ 30,751</u>	<u>\$ (14,750)</u>

ADDITIONAL INFORMATION

TOWNSHIP OF WATSON
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2007

	Debt Service Fund	Building & Inspection Fund	Total Non-Major Governmental Funds
Assets			
Cash and cash equivalents	\$ 0	\$ 500	\$ 500
Investments	0	0	0
Receivables - net	0	0	0
Due from other funds	0	0	0
Total Assets	<u>\$ 0</u>	<u>\$ 500</u>	<u>\$ 500</u>
Liabilities and Fund Equity			
Liabilities			
Accounts payable	\$ 0	\$ 0	\$ 0
Due to other funds	0	500	500
Due to other governments	0	0	0
Total Liabilities	0	500	500
Fund Balance			
Reserved	0	0	0
Unreserved	0	0	0
Total Fund Equity	0	0	0
Total Liabilities and Fund Equity	<u>\$ 0</u>	<u>\$ 500</u>	<u>\$ 500</u>

TOWNSHIP OF WATSON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2007

	Debt Service Fund	Building & Inspection Fund	Non-Major Governmental Funds
Revenues			
Taxes and penalties	\$ 0	\$ 0	\$ 0
Licenses and permits	0	20,573	20,573
Interest	0	0	0
Other income	0	0	0
Total Revenues	0	20,573	20,573
Expenditures			
Current			
Debt service	0	0	0
Principal	27,738	0	27,738
Interest	12,393	0	12,393
Public safety	0	20,573	20,573
Total Expenditures	40,131	20,573	60,704
Excess of Revenues Over (Under) Expenditures	(40,131)	0	(40,131)
Other Financing Sources (Uses)			
Operating transfers in	40,131	0	40,131
Operating transfers (out)	0	0	0
Total Other Financing Sources (Uses)	40,131	0	40,131
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	0	0	0
Fund Balance-April 1, 2006	0	0	0
Fund Balance-March 31, 2007	\$ 0	\$ 0	\$ 0

ANGLE & STEFFES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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August 17, 2007

In planning and performing our audit of the Financial Statements of the Township of Watson for the year ended March 31, 2007, we considered the Township's internal control structure to determine audit procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are an opportunity to strengthen internal control and increase operating efficiency. We offer the following items for your consideration.

Uninsured Bank Deposits

Michigan Townships are allowed \$100,000 in each demand and savings accounts per bank to be FDIC insured in the event of loss. As of March 31, 2007, Watson Township had \$5,626 in uninsured demand deposits. We recommend that the Township evaluate the cash balances, and determine whether additional savings accounts and banks should be utilized. We have noted that this is greatly improved from the prior audit.

Excess of Expenditures Over Appropriations

Public Act 621 of 1978, section 18(1) as amended, provides that the Township 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 line functional basis. The approved budgets of the Township for these budgetary funds were adopted to the line item level.

During the year ended March 31, 2007, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund		
Township Board	19,125	22,314
Assessing	16,800	17,530
Capital Outlay	800	1,950
Transfers Out	48,000	70,131
Road and Dust Control	39,375	51,604

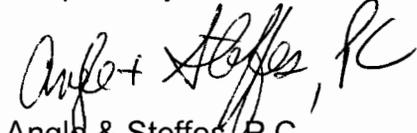
The Township is evaluating its budget on a regular basis. Your continued diligence is appreciated.

General

In general the internal control systems of the Township are adequate and functioning properly. The comments noted above will help the Township strengthen the existing controls.

We greatly appreciate the help and cooperation given to us by all the Township employees and officials.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Angle & Steffes, P.C.", written in black ink.

Angle & Steffes, P.C.

Certified Public Accountants