

COVINGTON TOWNSHIP
BARAGA COUNTY, MICHIGAN

FINANCIAL STATEMENTS

AND

ADDITIONAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2007

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 COVINGTON TOWNSHIP		County BARAGA	
Fiscal Year End JUNE 30, 2007		Opinion Date NOVEMBER 7, 2007		Date Audit Report Submitted to State FEBRUARY 26, 2008			

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 checked="" type="checkbox"/>	SINGLE AUDIT	
Certified Public Accountant (Firm Name) COWELL & LAPOINTE, PC			Telephone Number 906-228-5150	
Street Address 101 S. FRONT ST., STE.301			City MARQUETTE	State MI
			Zip 49855	
Authorizing CPA Signature 		Printed Name GLORIA J. LAPOINTE		License Number A261885

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COVINGTON TOWNSHIP
Management's Discussion and Analysis

Our discussion and analysis of Covington Township's financial performance provides an overview of the Township's financial activities for the year ended June 30, 2007. Please read it in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

Township as a Whole

The Township's combined net assets increased approximately 7% from the previous year. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) for governmental activities as of the current date to the prior year:

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$395	\$350
Noncurrent assets	<u>596</u>	<u>568</u>
Total Assets	<u>\$991</u>	<u>\$918</u>
Liabilities		
Other liabilities	<u>\$ 23</u>	<u>\$ 20</u>
Net Assets		
Investment in capital assets – net of related debt	\$596	\$568
Unrestricted	283	330
Restricted for Fire Grant	<u>89</u>	<u>—</u>
Total Net Assets	<u>\$968</u>	<u>\$898</u>

Total revenues and expenditures were considerably higher during the year reflecting the activity involved in administrating the Firefighter's Communication Grant. Property tax revenues controlled by Proposal A went up slightly and were offset by a decrease in state shared revenues. Building activity and property ownership transfers were down slightly, and building projects were small in scope reflecting the overall state of the economy. The cost of providing services to the Township residents increased due to higher prices in fuel and petroleum based commodities. The increase was offset partially by an increase in fees charged for use of the

COVINGTON TOWNSHIP
Management's Discussion and Analysis - Continued

Township as a Whole - Continued

services. The following table gives a condensed comparison of revenues, expenditures, and net assets (in thousands of dollars) for governmental activities as of the current date to the 2006 fiscal year:

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 77	\$ 42
Operating grants and contributions	1	6
Capital grants and contributions	624	
General Revenues		
Property taxes	85	87
State-shared revenues	40	41
Cemetery lot sales	1	1
Interest and rentals	12	8
Other	<u>9</u>	<u>5</u>
Total Revenues	849	190
Program Expenses		
Legislative	6	7
General government	100	98
Public safety	556	17
Public works	59	57
Health and welfare	30	26
Culture and recreation	19	19
Community and economic development	<u>9</u>	<u> </u>
Total Expenses	<u>779</u>	<u>224</u>
Change in Net Assets	<u>\$ 70</u>	<u>\$ <34></u>

The Township's net assets remain healthy, and fund balances are adequate at current levels. The Township Board will continue to monitor all expenditures and apply sound fiscal management policies to maintain existing fund balances.

Revenues increased in 2007 due to increased charges in public safety, public works, and health and welfare, although this was offset by increased expenditures in all these areas.

Budget amendments were needed for the increased cost of maintaining basic daily governmental functions to the residents of the Township.

COVINGTON TOWNSHIP
Management's Discussion and Analysis - Continued

Township as a Whole - Continued

Capital projects completed were—(1) an upgrade to bathroom facilities at the Township ballfield due to health concerns and (2) the parking lot at the multi-purpose building was resurfaced to take advantage of a blacktop provider being in the area for MDOT work.

Governmental Activities

The cost of providing needed services to the residents of Covington Township is increasing at rates higher than revenues coming in to support them. The costs associated with fire and ambulance services along with the increased daily costs of maintaining the Township facilities are and will continue to be a challenge for all small Townships across the State of Michigan. Currently the Township is able to continue to provide quality services to the residents, and will strive to maintain them.

Economic Factors

Due to the poor economic climate across the entire State, and the increasing cost of fuel and supplies, the Township Board needs to continue to watch and monitor expenditures on a continual basis. Proposal A limits the potential for increased income from property taxes, and the concerns over the availability of state revenue sharing funds provide a limited revenue base to work from. All expenditures will be questioned, and all cost saving measures will be explored.

Contacting Township Management

This financial report is intended to provide our residents and taxpayers with a general overview of the Township finances and show the Township's accountability for the funds it receives. If you have any questions about this report or need additional information, please contact any of the Township Board members.

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Board of Trustees
Covington Township
Baraga County, Michigan

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Township, as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's Board. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Township as of June 30, 2007 and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT – Continued

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2007, on our consideration of Covington Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 3, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Covington Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cowell & Sabanti, PC
Certified Public Accountants
Marquette, Michigan

November 7, 2007

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

Board of Trustees
Covington Township
Baraga County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Township as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents and have issued our report thereon dated November 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Covington Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Covington Township in a separate letter dated November 7, 2007.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Covington Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Covington Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition follows:

- The limited staff of the Township does not permit adequate segregation of duties.

AUDITOR'S INTERNAL CONTROL AND COMPLIANCE LETTER – Continued

INTERNAL CONTROL OVER FINANCIAL REPORTING - Continued

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Covington Township, in a separate letter dated November 7, 2007.

This report is intended solely for the information of Covington Township management and Board of Trustees, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cowell & Sabante, PC
Certified Public Accountants
Marquette, Michigan

November 7, 2007

COVINGTON TOWNSHIP

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 363,492
Accounts receivable	31,887
Capital assets - less accumulated depreciation of \$347,739	<u>595,617</u>
Total assets	<u>\$ 990,996</u>
Liabilities	
Accounts payable	\$ 21,715
Accrued payroll, withholdings and benefits	<u>1,191</u>
Total liabilities	<u>22,906</u>
Net Assets	
Investment in capital assets - net of related debt	595,617
Restricted for fire grant	89,619
Unrestricted	<u>282,854</u>
Total net assets	<u>968,090</u>
Total liabilities and net assets	<u>\$ 990,996</u>

See accompanying notes to financial statements.

COVINGTON TOWNSHIP

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating Grants/</u>	<u>Activities</u>
		<u>Services</u>	<u>Contributions</u>	<u>Net (Expense)</u>
			<u>Capital Grants/</u>	<u>Revenue and</u>
			<u>Contributions</u>	<u>Changes in Net</u>
				<u>Assets</u>
Governmental Activities:				
Legislative	\$ 5,949	\$	\$	\$ (5,949)
General government	100,226	3,287		(96,939)
Public safety	555,823	10,696	990	79,567
Public works	58,783	31,487		(27,296)
Health and welfare	29,799	31,834		2,035
Culture and recreation	18,793			(18,793)
Community/economic development	9,812			(9,812)
Total Governmental Activities	\$ 779,185	\$ 77,304	\$ 990	\$ (77,187)
General Revenues:				
Taxes:				
Property taxes				43,598
Commercial forest act				4,780
Swamp and national forest tax				31,319
Penalty, interest and fees on taxes				5,644
State-shared revenues				39,759
Cemetery lot sales				1,575
Interest and rentals				11,567
Other				8,679
Total general revenues				146,921
Change in Net Assets				69,734
Net Assets - July 1, 2006				898,356
Net Assets - June 30, 2007				\$ 968,090

See accompanying notes to financial statements.

COVINGTON TOWNSHIP

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	<u>General Fund</u>	<u>Ambulance and Fire Fund</u>	<u>Nonmajor Recreation Fund</u>	<u>Liquor Law Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash	\$ 256,474	\$ 93,174	\$ 8,113	\$ 5,731	\$ 363,492
Receivables:					
Accrued interest	281				281
Accounts receivable	11,844	18,647	852		31,343
Due from tax fund	263				263
	<u>268,862</u>	<u>111,821</u>	<u>8,965</u>	<u>5,731</u>	<u>395,379</u>
Total assets					
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 7,645	\$ 12,223	\$ 1,847	\$	\$ 21,715
Accrued payroll benefits	1,191				1,191
	<u>8,836</u>	<u>12,223</u>	<u>1,847</u>		<u>22,906</u>
Total liabilities					
Fund Balances					
Reserved for fire grant	89,619				89,619
Unreserved	170,407	99,598	7,118	5,731	282,854
	<u>260,026</u>	<u>99,598</u>	<u>7,118</u>	<u>5,731</u>	<u>372,473</u>
Total fund balances					
Total liabilities and fund balances	<u>\$ 268,862</u>	<u>\$ 111,821</u>	<u>\$ 8,965</u>	<u>\$ 5,731</u>	<u>\$ 395,379</u>

See accompanying notes to financial statements.

COVINGTON TOWNSHIP

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

Total Governmental Fund Balances		\$ 372,473
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.		
The cost of the capital assets is	\$ 943,356	
Accumulated depreciation is	<u>(347,739)</u>	<u>595,617</u>
Net assets of governmental activities		<u>\$ 968,090</u>

See accompanying notes to financial statements.

COVINGTON TOWNSHIP

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007**

	General	Ambulance and Fire	Nonmajor		Totals
			Recreation	Liquor Law	
Revenues					
Taxes	\$ 53,791	\$ 15,113	\$ 16,437	\$	\$ 85,341
Licenses and permits	3,287				3,287
Federal grants	532,804				532,804
State grants	42,226			990	43,216
Charges for services	31,487	42,530			74,017
Contributions and grants	90,900				90,900
Interest and rentals	9,907		1,660		11,567
Cemetery lot sales	1,575				1,575
Other	5,391	22	799		6,212
Total revenues	771,368	57,665	18,896	990	848,919
Expenditures					
Current					
Legislative	5,570				5,570
General government	124,677				124,677
Public safety	536,243	17,607		582	554,432
Public works	58,776				58,776
Health and welfare		28,846			28,846
Culture and recreation			22,592		22,592
Community/economic development	597				597
Other	10,828				10,828
Total expenditures	736,691	46,453	22,592	582	806,318
Net Change in Fund Balances	34,677	11,212	(3,696)	408	42,601
Fund Balances - July 1, 2006	225,349	88,386	10,814	5,323	329,872
Fund Balances - June 30, 2007	\$ 260,026	\$ 99,598	\$ 7,118	\$ 5,731	\$ 372,473

See accompanying notes to financial statements.

COVINGTON TOWNSHIP

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Net Change in Fund Balances - Total Governmental Funds **\$ 42,601**

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

Governmental funds report capital outlays as expenditures; in the
statement of activities, these costs are allocated over their
estimated useful lives as depreciation

Depreciation expense	\$ 37,082	
Capital outlay	<u>(64,215)</u>	<u>(27,133)</u>

Change in Net Assets of Governmental Activities **\$ 69,734**

See accompanying notes to financial statements.

COVINGTON TOWNSHIP
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	<u>Agency Fund Type- Property Tax Collection Fund</u>
Assets	
Cash	<u>\$ 263</u>
Liabilities	
Due to general fund	<u>263</u>
Total liabilities	<u>263</u>
Net Assets	<u><u>\$</u></u>

See accompanying notes to financial statements.

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Covington Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

In 2004, Covington Township implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures* which changes note disclosure requirements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

Reporting Entity

Covington Township is governed by an elected five-member Board of Trustees and provides services for about 650 residents, which includes fire and ambulance protection and garbage collection. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued JUNE 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reporting Entity - Continued

significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application of the criteria, the Township does not contain any component units.

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. For the most part, the effect of interfund activity has been removed from these statements. 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. All the Township's government-wide activities are considered governmental activities.

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

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

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Government-Wide Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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

Fund Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 related 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 fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Covington Township reports two major governmental funds:

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

The Ambulance and Fire Fund accounts for all of the activities of the Township's fire and ambulance services.

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Fund Based Statements – Continued

Additionally, the Township reports the following fund type:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. They are used to segregate the transaction of particular activities from regular revenue and expenditure accounts.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

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. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include 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. Pooled interest income from the Ambulance and Fire Fund, Recreation Fund, and Liquor Law Enforcement Fund is allocated to the General Fund.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued JUNE 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables and Payables – Continued

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The Township property tax is levied, due, and becomes a lien each December 1st on the basis of the taxable value of property located in the Township as of the preceding December 31st. If the Township's real property taxes are not collected by the Township Treasurer by March 1st of the year subsequent to levy, Baraga County will pay the Township the remaining balance owing on these taxes. The ultimate collection of personal property taxes is the responsibility of the Township.

Inventories and Prepaid Costs – 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 costs in both government-wide and fund financial statements.

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

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and other additions	20-50 years
Furniture and other equipment	5-20 years
Vehicles	10 years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued JUNE 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Comparative Data/Reclassifications – Comparative data is not included in the Township's financial statements.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Prior to the beginning of the fiscal year, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following July 1st. A public hearing is then conducted to obtain taxpayer comments. Prior to July 1st, the budget is legally enacted by resolution.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by July 1st. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits townships to amend their budgets during the year. The budgets are presented in the required and other supplemental information.

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, Covington Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance</u>
General Fund-Clerk	\$ 6,060	\$ 6,256	\$ 196
-Treasurer	7,535	7,550	15
-Assessor/equalization	9,986	10,024	38
-Elections	2,500	2,701	201
-Public safety	3,570	536,243	532,673
-Public works	58,400	58,776	376
Recreation Fund	21,680	22,592	912

NOTE C – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes Covington Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper 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 Township considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

All investments are put in federally insured bank accounts subject to the FDIC insurance limit of \$100,000 per account. The cash from all funds was maintained in a common, interest bearing checking account except for the tax collection fund which had its own checking account. In addition there was a certificate of deposit and savings account for the General Fund.

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE C – DEPOSITS AND INVESTMENTS - Continued

The investment policy adopted by the board in accordance with Act 20 PA 1943 is in accordance with state statutory authority.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

At year-end, the Township's deposits and investments were reported in the basic financial statements as cash and cash equivalents as follows:

Governmental activities	\$363,492
Fiduciary funds	<u>263</u>
Total	<u>\$363,755</u>

All of the funds are invested in checking, savings, and certificate of deposit accounts.

The deposits of Covington Township were reflected in the accounts of bank and credit union deposits at \$365,838, of which \$200,000 was covered by federal depository insurance and \$165,838 was uninsured and uncollateralized.

NOTE D – RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employees injuries (workers compensation). The Township maintains insurance coverage through the Michigan Township Participating Plan. This Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this coverage in any of the past three years.

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE E – CAPITAL ASSETS

Capital asset activity of the Township’s Governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets not being depreciated				
Land	\$ 10,000	\$	\$	\$ 10,000
Building	<u>2,168</u>	_____.	<u><2,168></u>	_____.
Subtotal	23,507		<2,168>	10,000
Capital assets being depreciated				
Land improvements	5,732	74,010		79,742
Buildings	680,514	32,092		712,606
Office equipment	8,387			8,387
Equipment	87,200		<39,719>	47,481
Vehicles	<u>85,140</u>	_____.	_____.	<u>85,140</u>
Subtotal	843,767	106,102	<39,719>	933,356
Accumulated depreciation				
Land improvements	414	19,192		19,596
Building	221,800	26,581		248,381
Office equipment	3,531	2,288		5,819
Equipment	50,856		<19,483>	31,373
Vehicles	<u>34,056</u>	<u>8,514</u>	_____.	<u>42,570</u>
Subtotal	<u>310,657</u>	<u>56,565</u>	<u><19,483></u>	<u>347,739</u>
Net capital assets being depreciated	<u>556,316</u>	<u>49,537</u>	<u><20,236></u>	<u>585,617</u>
Governmental activities - total capital assets - net of depreciation	<u>\$568,484</u>	<u>\$49,938</u>	<u>\$<22,404></u>	<u>\$595,617</u>

COVINGTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE E – CAPITAL ASSETS – Continued

Depreciation expense was charged to activities of the Township as follows:

Governmental activities:	
General government	\$25,354
Public safety	102
Culture and recreation	2,440
Health and welfare	<u>9,186</u>
 Total governmental activities	 <u>\$37,082</u>

NOTE F – DEFINED CONTRIBUTION PLAN

Plan Description – The Township has a defined contribution retirement plan administered by Municipal Retirement Systems, Inc., which covers substantially all employees except appointed boards, commissions, and part-time or seasonal employees.

Funding Policy - The plan, which qualifies under Internal Revenue Code Section 401 (a), is funded by contributions from the employer and employee, who each contribute five percent of an employee's annual compensation. Employees are vested 100% upon entering the plan and must be 18 years old.

Contributions by the employer and employee were ten percent of covered payroll for the year ending June 30, 2007. This reflects contributions of \$1,192 for the calendar year 2006 based on total payroll of \$43,267 and covered payroll of \$23,841.

REQUIRED SUPPLEMENTAL INFORMATION

COVINGTON TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Amended Budget</u>
Revenues:				
Taxes	\$ 52,530	\$ 52,530	\$ 53,791	\$ 1,261
Licenses and permits	2,700	2,700	3,287	587
Federal grants			532,804	532,804
State grants	43,010	43,010	42,226	(784)
Charges for services	30,500	30,500	31,487	987
Interest and rentals	3,000	3,000	9,907	6,907
Cemetery lot sales	1,200	1,200	1,575	375
Contributions from local units			90,900	90,900
Other revenue	500	500	5,391	4,891
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	133,440	133,440	771,368	637,928
Expenditures:				
Legislative	7,125	7,125	5,570	(1,555)
General Government:				
Supervisor	5,790	5,790	5,690	(100)
Clerk	6,060	6,060	6,256	196
External audit	3,000	3,000	2,840	(160)
Board of review	1,330	1,330	1,154	(176)
Treasurer	7,235	7,535	7,550	15
Assessor/equalization	7,686	9,986	10,024	38
Elections	2,500	2,500	2,701	201
Township hall and other property	65,500	89,500	83,185	(6,315)
Cemetery	6,186	6,186	5,277	(909)
Public Safety:				
Inspections	3,570	3,570	2,158	(1,412)
Fire			534,085	534,085
Public Works:				
Highways, streets and lighting	18,800	18,800	19,170	370
Sanitation	39,600	39,600	39,606	6
Community and Economic Development:				
Zoning	1,000	1,000	597	(403)
Other	12,592	12,592	10,828	(1,764)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	187,974	214,574	736,691	522,117
Net Change in Fund Balance	(54,534)	(81,134)	34,677	115,811
Fund Balance - July 1, 2006	<hr/>	<hr/>	<hr/>	<hr/>
	225,349	225,349	225,349	
Fund Balance - June 30, 2007	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 170,815	\$ 144,215	\$ 260,026	\$ 115,811

COVINGTON TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR SPECIAL REVENUE FUND-AMBULANCE AND FIRE FUND
FOR THE YEAR ENDED JUNE 30, 2007**

With comparative amounts for the year ended June 30, 2006

	2007			Over (Under) Budget	2006 Actual
	Original Budget	Amended Budget	Actual		
Revenues					
Taxes-Current tax collections	\$ 13,360	\$ 13,360	\$ 13,612	\$ 252	\$ 13,468
-Commercial forest reserve	810	810	1,501	691	2,310
Ambulance services	8,500	8,500	31,834	23,334	9,016
Fire services	1,000	1,000	10,696	9,696	1,000
Contributions	3,000	3,000		(3,000)	5,005
Miscellaneous			22	22	
Total revenues	26,670	26,670	57,665	30,995	30,799
Expenditures					
Ambulance					
Salaries and wages	3,500	3,500	12,543	9,043	4,129
Training and renewals	450	450	1,241	791	400
Office supplies	150	150	235	85	35
Telephone	1,000	1,000	607	(393)	1,052
Pagers	300	300	378	78	50
Mileage	800	800	1,288	488	909
Insurance	5,000	5,000	4,748	(252)	4,500
Utilities	2,500	2,500	2,020	(480)	2,062
Repairs & maintenance-vehicle	2,000	2,000	2,802	802	1,796
-building	2,500	2,500	1,399	(1,101)	414
Miscellaneous					148
Capital outlay	15,000	15,000		(15,000)	1,335
Supplies	1,200	1,200	1,585	385	1,364
Fire					
Salaries and wages	1,700	1,700	5,741	4,041	1,333
Supplies	400	400	459	59	578
Telephone	1,225	1,225	902	(323)	1,298
Pagers	300	300	350	50	
Mileage	850	850	816	(34)	799
Insurance	4,500	4,500	4,748	248	4,500
Utilities	2,500	2,500	2,020	(480)	2,062
Repairs & maintenance-vehicle	500	500	587	87	41
-building	2,500	2,500	1,984	(516)	420
Training	150	150		(150)	121
Capital outlay	10,000	10,000		(10,000)	
Total expenditures	59,025	59,025	46,453	(12,572)	29,346
Net Change in Fund Balance	(32,355)	(32,355)	11,212	43,567	1,453
Fund Balance - July 1, 2006	88,386	88,386	88,386		86,933
Fund Balance - June 30, 2007	\$ 56,031	\$ 56,031	\$ 99,598	\$ 43,567	\$ 88,386

OTHER SUPPLEMENTAL INFORMATION

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND**

**SCHEDULE OF REVENUES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

With comparative actual amounts for the year ended June 30, 2006

	2007			Over (Under) Budget	2006 Actual
	Original Budget	Amended Budget	Actual		
Revenues					
Taxes					
Current tax levy	\$ 14,750	\$ 14,750	\$ 15,181	\$ 431	\$ 14,623
Penalties, interest and fees on taxes	4,760	4,760	5,644	884	4,865
Swamp and national forest tax	32,170	32,170	31,319	(851)	32,171
Commercial forest reserve	850	850	1,647	797	2,409
Licenses and permits	2,700	2,700	3,287	587	2,685
Federal grants					
FEMA radio grant			532,804	532,804	
State grants					
State revenue sharing	40,560	40,560	39,759	(801)	40,486
Metro authority	2,450	2,450	2,467	17	
Charges for services	30,500	30,500	31,487	987	29,223
Interest and rentals	3,000	3,000	9,907	6,907	6,952
Cemetery lot sales	1,200	1,200	1,575	375	1,400
Contributions from local units			90,900	90,900	
Other revenue	500	500	5,391	4,891	4,417
Total revenues	<u>\$133,440</u>	<u>\$ 133,440</u>	<u>\$ 771,368</u>	<u>\$ 637,928</u>	<u>\$ 139,231</u>

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND**

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

With comparative actual amounts for the year ended June 30, 2006

	2007			Over (Under) Budget	2006 Actual
	Original Budget	Amended Budget	Actual		
Legislative					
Salaries	\$ 3,750	\$ 3,750	\$ 3,706	\$ (44)	\$ 3,464
Other	<u>3,375</u>	<u>3,375</u>	<u>1,864</u>	<u>(1,511)</u>	<u>2,714</u>
Total legislative	<u>7,125</u>	<u>7,125</u>	<u>5,570</u>	<u>(1,555)</u>	<u>6,178</u>
General Government					
Executive - supervisor					
Salaries	5,690	5,690	5,690		5,317
Other	<u>100</u>	<u>100</u>		<u>(100)</u>	
Total executive	<u>5,790</u>	<u>5,790</u>	<u>5,690</u>	<u>(100)</u>	<u>5,317</u>
Clerk					
Salaries	5,560	5,560	5,560		5,197
Other	<u>500</u>	<u>500</u>	<u>696</u>	<u>196</u>	<u>510</u>
Total clerk	<u>6,060</u>	<u>6,060</u>	<u>6,256</u>	<u>196</u>	<u>5,707</u>
External audit					
Other	<u>3,000</u>	<u>3,000</u>	<u>2,840</u>	<u>(160)</u>	<u>2,730</u>
Board of review					
Salaries	1,030	1,030	921	(109)	961
Other	<u>300</u>	<u>300</u>	<u>233</u>	<u>(67)</u>	<u>264</u>
Total board of review	<u>1,330</u>	<u>1,330</u>	<u>1,154</u>	<u>(176)</u>	<u>1,225</u>

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND**

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - Continued
FOR THE YEAR ENDED JUNE 30, 2007**

With comparative actual amounts for the year ended June 30, 2006

	2007			Over (Under) Budget	2006 Actual
	Original Budget	Amended Budget	Actual		
General Government (Continued)					
Treasurer					
Salaries	\$ 5,560	\$ 5,560	\$ 5,560	\$	\$ 5,197
Other	1,675	1,975	1,990	15	1,691
Total treasurer	<u>7,235</u>	<u>7,535</u>	<u>7,550</u>	<u>15</u>	<u>6,888</u>
Assessor/equalization					
Salaries	5,136	5,136	5,136		4,400
Other	2,550	4,850	4,888	38	2,491
Total assessor/equalization	<u>7,686</u>	<u>9,986</u>	<u>10,024</u>	<u>38</u>	<u>6,891</u>
Elections					
Salaries	1,400	1,400	1,024	(376)	706
Other	1,100	1,100	1,677	577	545
Total elections	<u>2,500</u>	<u>2,500</u>	<u>2,701</u>	<u>201</u>	<u>1,251</u>
Township hall and other property					
Salaries	3,900	3,900	2,830	(1,070)	3,497
Other	26,600	26,600	22,790	(3,810)	26,980
Capital outlay	35,000	59,000	57,565	(1,435)	8,364
Total township hall and other property	<u>65,500</u>	<u>89,500</u>	<u>83,185</u>	<u>(6,315)</u>	<u>38,841</u>
Cemetery					
Salaries	1,686	1,686	1,217	(469)	1,376
Other	4,500	4,500	4,060	(440)	4,030
Total cemetery	<u>6,186</u>	<u>6,186</u>	<u>5,277</u>	<u>(909)</u>	<u>5,406</u>
Total general government	<u>105,287</u>	<u>131,887</u>	<u>124,677</u>	<u>(7,210)</u>	<u>74,256</u>

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND**

**SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL - Continued
FOR THE YEAR ENDED JUNE 30, 2007**

With comparative actual amounts for the year ended June 30, 2006

	2007			Over (Under) Budget	2006 Actual
	Original Budget	Amended Budget	Actual		
Public Safety					
Building and electrical inspections					
Salaries	\$ 2,670	\$ 2,670	\$ 1,636	\$ (1,034)	\$ 2,638
Other	900	900	522	(378)	681
Fire			534,085	534,085	
Total public safety	<u>3,570</u>	<u>3,570</u>	<u>536,243</u>	<u>532,673</u>	<u>3,319</u>
Public Works					
Highways, streets, lighting - other	<u>18,800</u>	<u>18,800</u>	<u>19,170</u>	<u>370</u>	<u>18,894</u>
Sanitation					
Salaries	200	200	97	(103)	182
Other	<u>39,400</u>	<u>39,400</u>	<u>39,509</u>	<u>109</u>	<u>38,078</u>
Total sanitation	<u>39,600</u>	<u>39,600</u>	<u>39,606</u>	<u>6</u>	<u>38,260</u>
Total public works	<u>58,400</u>	<u>58,400</u>	<u>58,776</u>	<u>376</u>	<u>57,154</u>
Community and Economic Development					
Zoning					
Salaries	750	750	381	(369)	87
Other	<u>250</u>	<u>250</u>	<u>216</u>	<u>(34)</u>	<u>100</u>
Total community and economic development	<u>1,000</u>	<u>1,000</u>	<u>597</u>	<u>(403)</u>	<u>187</u>
Other					
Insurance	7,200	7,200	6,661	(539)	7,179
FICA, Retirement	5,392	5,392	4,167	(1,225)	3,062
Other					133
Total other	<u>12,592</u>	<u>12,592</u>	<u>10,828</u>	<u>(1,764)</u>	<u>10,374</u>
Total expenditures	<u>\$ 187,974</u>	<u>\$ 214,574</u>	<u>\$ 736,691</u>	<u>\$ 522,117</u>	<u>\$ 151,468</u>

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
SPECIAL REVENUE FUND-RECREATION FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007
With comparative actual amounts for the year ended June 30, 2006**

	2007			Over (Under) Budget	2006 Actual
	Original Budget	Amended Budget	Actual		
Revenues					
Taxes-Current tax collections	\$ 14,610	\$ 14,610	\$ 14,805	\$ 195	\$ 14,611
-Commercial forest reserve	840	840	1,632	792	2,476
Rent and reimbursements	1,200	1,200	1,660	460	1,301
Other	1,000	1,000	799	(201)	1,054
Total revenues	17,650	17,650	18,896	1,246	19,442
Expenditures					
Recreation					
Salaries and wages	4,280	4,280	3,626	(654)	3,953
Contract mowing	1,800	5,500	4,352	(1,148)	1,512
July 4th	4,500	4,500	3,659	(841)	3,522
Miscellaneous	1,000	1,000	985	(15)	1,101
Utilities	1,500	1,500	1,346	(154)	1,280
Repairs & maintenance-equipment	1,200	1,200	304	(896)	2,194
-building	2,000	2,000		(2,000)	2,557
Supplies	500	500	1,670	1,170	427
Capital outlay	1,200	1,200	6,650	5,450	2,168
Total expenditures	17,980	21,680	22,592	912	18,714
Net Change in Fund Balance	(330)	(4,030)	(3,696)	334	728
Fund Balance - July 1, 2006	10,814	10,814	10,814		10,086
Fund Balance - June 30, 2007	\$ 10,484	\$ 6,784	\$ 7,118	\$ 334	\$ 10,814

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
SPECIAL REVENUE FUND-LIQUOR LAW ENFORCEMENT FUND
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

With comparative actual amounts for the year ended June 30, 2006

	2007			Over (Under) Budget	2006 Actual
	Original Budget	Amended Budget	Actual		
Revenues					
State grants	\$ 990	\$ 990	\$ 990	\$	\$ 990
Total revenues	990	990	990		990
Expenditures					
Liquor law enforcement					
Salaries and contractual	1,170	1,490	582	(908)	1,995
Total expenditures	1,170	1,490	582	(908)	1,995
Net Change in Fund Balance	(180)	(500)	408	908	(1,005)
Fund Balance - July 1, 2006	5,323	5,323	5,323		6,328
Fund Balance - June 30, 2007	<u>\$ 5,143</u>	<u>\$ 4,823</u>	<u>\$5,731</u>	<u>\$ 908</u>	<u>\$ 5,323</u>

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
ALL AGENCY FUNDS**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Tax Collection Fund

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
Assets				
Cash	<u>\$ 1,055</u>	<u>\$ 213,815</u>	<u>\$ 214,607</u>	<u>\$ 263</u>
Liabilities				
Interfund payables	<u>\$ 1,055</u>	<u>\$ 44,515</u>	<u>\$ 45,307</u>	<u>\$ 263</u>
Due to other governmental units		<u>169,300</u>	<u>169,300</u>	
Total liabilities	<u>\$ 1,055</u>	<u>\$ 213,815</u>	<u>\$ 214,607</u>	<u>\$ 263</u>

COVINGTON TOWNSHIP

**OTHER SUPPLEMENTAL INFORMATION
PROPERTY TAX DATA
FOR THE YEAR ENDED JUNE 30, 2007**

2006 Taxable Valuation--\$14,996,300

2006 Tax Levy	<u>Mills</u>	<u>Collections</u>
General	1.0000	\$ 15,181
Recreation	0.9908	14,805
Ambulance/Fire	<u>0.9110</u>	<u>13,612</u>
Total	<u><u>2.9018</u></u>	<u><u>\$ 43,598</u></u>

COWELL & LaPOINTE, PC
CERTIFIED PUBLIC ACCOUNTANTS
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MICHAEL R. CHESLA, CPA
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101 SOUTH FRONT STREET
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MARQUETTE, MICHIGAN 49855
906-228-5150

Board of Trustees
Covington Township
Baraga County, Michigan

MANAGEMENT LETTER ON ANNUAL REPORT

In connection with the examination of the financial statements of Covington Township for the year ended June 30, 2007, we submit the following comments and recommendations:

BUDGETS

Public Act 621 of 1978, as amended, requires that budgets should be amended prior to the expenditures being made. As indicated in Note B to the financial statements, there was overspending in the General Fund and Recreation Fund. Your expenditures should be monitored on a monthly or at least, quarterly, basis with your budget and the budget should be amended to prevent overspending.

ACCOUNTING

Account Classifications: The examination of transactions indicated numerous receipts and disbursements misclassified in your accounting program. Please review the accounts being used when recording transactions to provide more accuracy in recording transactions. Also, capital assets should be recorded as capital outlay or equipment and not included under maintenance and repairs or supplies.

Government Auditing Standards require the Township to be responsible for the balances in the chart of accounts. An excessive amount of adjusting entries for the audit could preclude this from happening and could eliminate the independence of the auditor. Therefore, it is essential that transactions are recorded properly. You should also work towards preparing year end financial statements that include accrual items, i.e. accounts receivable and accounts payable. This would necessitate keeping track of those items that are recorded after the end of the year but occurred before the end of the year.

FEDERAL GRANT

Federal grant expenditures reached \$532,804 for the year ended June 30, 2007. The grant requires a match of twenty percent (20%) of the federal expenditures. You will need to spend \$106,561 of local funds before the end of the grant period to meet this requirement.

MANAGEMENT LETTER ON ANNUAL REPORT - Continued
Page Two

We appreciate the cooperation of Township personnel in completing the audit. If we can be of assistance in the implementation of these recommendations or any other services as they may arise, please contact us.

Cowell & Sabatini, PC
Certified Public Accountants

November 7, 2007

COWELL & LaPOINTE, PC
CERTIFIED PUBLIC ACCOUNTANTS
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MEMBER OF: THE AMERICAN INSTITUTE AND THE MICHIGAN ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

**Board of Trustees
Covington Township
Baraga County, Michigan**

We have audited the financial statements of Covington Township, for the year ended June 30, 2007 and have issued our report thereon dated November 7, 2007. Professional standards require that we provide you with following information related to our audit.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated June 15, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Covington Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurances concerning such internal control.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Covington Township are described in Note A to the financial statements. We noted no transactions entered into by Covington Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

SIGNIFICANT AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by Covington Township that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

Our audit adjustments consisted primarily of reclassification entries and year-end journal entries. These entries, individually, and in the aggregate, have a significant effect on the financial reporting process.

DISAGREEMENTS WITH MANAGEMENT

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Covington Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Covington Township Board of Trustees management and should not be used for any other purpose.

Very truly yours,

Cowell & LaPointe PC
Certified Public Accountants

November 7, 2007

COVINGTON TOWNSHIP

BARAGA COUNTY, MICHIGAN

SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2007

REPORT CONTENTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Covington Township
Baraga County, Michigan

COMPLIANCE

We have audited the compliance of Covington Township with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Covington Township's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Covington Township's management. Our responsibility is to express an opinion on Covington Township's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about Covington Township's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Covington Township's compliance with those requirements.

In our opinion, Covington Township complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ending June 30, 2007.

**AUDITOR'S INTERNAL CONTROL AND COMPLIANCE LETTER
– MAJOR FEDERAL PROGRAMS – Continued**

INTERNAL CONTROL OVER COMPLIANCE

The management of Covington Township is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Covington Township's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Township as of and for the year ended June 30, 2007, and have issued our report thereon dated November 7, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Covington Township's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of Covington Township management and Board of Trustees, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cowell & Sabante, PC
Certified Public Accountants
Marquette, Michigan

November 7, 2007

COVINGTON TOWNSHIP

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Covington Township, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Board of Trustees
Covington Township
Baraga County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Township as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents and have issued our report thereon dated November 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Covington Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Covington Township in a separate letter dated November 7, 2007.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Covington Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Covington Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition follows:

- The limited staff of the Township does not permit adequate segregation of duties.

AUDITOR'S INTERNAL CONTROL AND COMPLIANCE LETTER – Continued

INTERNAL CONTROL OVER FINANCIAL REPORTING - Continued

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Covington Township, in a separate letter dated November 7, 2007.

This report is intended solely for the information of Covington Township management and Board of Trustees, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cowell & Subanate, PC
Certified Public Accountants
Marquette, Michigan

November 7, 2007

COVINGTON TOWNSHIP

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit finding disclosed that are required to be reported with Section 501(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)

97.044

Name of Federal Program or Cluster

Assistance to Firefighters Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

COVINGTON TOWNSHIP

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

FINDINGS/NONCOMPLIANCE

There were no prior year findings or questioned costs relating to Covington Township's major programs.