

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 type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date		Date Audit Report Submitted to State			

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 type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Sharon L. Vargo</i>		Printed Name		License Number

Township of Fredonia, Michigan

**Financial Report
with Supplemental Information
June 30, 2007**

Township of Fredonia, Michigan

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Independent Auditor's Report

To the Supervisor and Members of
the Township Board
Township of Fredonia, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Fredonia, Michigan 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 of Fredonia, Michigan's management. Our responsibility is to express opinions 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 and each major fund of the Township of Fredonia, Michigan 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.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

February 26, 2008

Township of Fredonia, Michigan

Management's Discussion and Analysis

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

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlight for the year ended June 30, 2007:

- State-shared revenue, our largest revenue source, continued to decline in 2007. The Township reacted by closely monitoring expenditures.

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. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Township of Fredonia, Michigan

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2005:

	Governmental Activities	
	June 30, 2007	June 30, 2005
Assets		
Current assets	\$ 474,505	\$ 551,673
Noncurrent assets	<u>1,426,919</u>	<u>1,599,042</u>
Total assets	1,901,424	2,150,715
Liabilities		
Current liabilities	149,015	192,341
Long-term liabilities	<u>429,520</u>	<u>737,906</u>
Total liabilities	<u>578,535</u>	<u>930,247</u>
Net Assets		
Invested in capital assets - Net of related debt	850,969	702,721
Restricted - Debt service	59,077	63,956
Unrestricted	<u>412,843</u>	<u>453,791</u>
Total net assets	<u>\$ 1,322,889</u>	<u>\$ 1,220,468</u>

Governmental Activities

The Township's total governmental revenues increased by approximately \$77,000 compared to 2005. The increase was primarily due to the additional debt service charges implemented during 2006.

Expenditures increased by \$35,000 compared to 2005 and the majority of the increase relates to an increase in public safety of approximately \$28,000.

Township of Fredonia, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the years ended June 30, 2007 and 2005:

	Governmental Activities	
	June 30, 2007	June 30, 2005
Revenue		
Program revenue:		
Charges for services	\$ 119,830	\$ 27,840
Operating grants	18,973	23,120
General revenue:		
Property taxes	100,479	90,990
State-shared revenue	119,081	120,379
Unrestricted investment earnings and miscellaneous	26,212	21,038
Total revenue	384,575	283,367
Program Expenses		
General government	158,741	137,686
Public safety	117,760	88,868
Public works	40,716	42,968
Other	9,505	21,996
Total program expenses	326,722	291,518
Change in Net Assets	\$ 57,853	\$ (8,151)

The Township's Funds

Our analysis of the Township's major funds begins on page 8, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2007 include the General Fund, the Fire Truck Debt Fund, and the Sewer Bond Fund.

The General Fund pays for most of the Township's governmental services. The most significant is public safety, which incurred expenditures of approximately \$71,000.

Township of Fredonia, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. Departmental transfers were the only budget amendments during the year. Departmental expenditures overall were under budget by approximately \$29,000. The General Fund's fund balance increased from approximately \$225,000 in 2005 to approximately \$240,000 at June 30, 2007.

Economic Factors and Next Year's Budgets and Rates

The Township anticipates that revenue-sharing amounts will continue to be uncertain and therefore, are budgeting conservatively.

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 questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Fredonia, Michigan

Statement of Net Assets June 30, 2007

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 283,104
Due from State	18,555
Special assessment receivable	172,846
Capital assets - Net (Note 4)	<u>1,426,919</u>
Total assets	1,901,424
Liabilities	
Payroll taxes and wages payable	2,585
Noncurrent liabilities (Note 5):	
Due within one year	146,430
Due in more than one year	<u>429,520</u>
Total liabilities	<u>578,535</u>
Net Assets	
Invested in capital assets - Net of related debt	850,969
Restricted - Debt service	59,077
Unrestricted	<u>412,843</u>
Total net assets	<u><u>\$ 1,322,889</u></u>

Township of Fredonia, Michigan

Statement of Activities Year Ended June 30, 2007

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Primary Government Total Governmental Activities
Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
Primary government - Governmental activities:				
General government	\$ 158,741	\$ 77,331	\$ -	\$ (81,410)
Public safety	117,760	-	18,973	(98,787)
Public works	40,716	42,499	-	1,783
Other	9,505	-	-	(9,505)
Total primary government	<u>\$ 326,722</u>	<u>\$ 119,830</u>	<u>\$ 18,973</u>	(187,919)
General revenues:				
Property taxes				100,479
State-shared revenues				119,081
Unrestricted investment earnings				10,968
Miscellaneous				15,244
Total general revenues				<u>245,772</u>
Change in Net Assets				57,853
Net Assets - Beginning of year				<u>1,265,036</u>
Net Assets - End of year				<u>\$ 1,322,889</u>

Township of Fredonia, Michigan

Governmental Funds Balance Sheet June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Fire Truck Debt Fund	Sewer Bond Fund	
Assets				
Cash and cash equivalents (Note 3)	\$ 215,870	\$ 42,044	\$ 25,190	\$ 283,104
Due from State	18,555	-	-	18,555
Special assessment receivable	34,346	-	138,500	172,846
Due from other funds (Note 6)	8,158	-	-	8,158
Total assets	\$ 276,929	\$ 42,044	\$ 163,690	\$ 482,663
Liabilities and Fund Balances				
Liabilities				
Payroll taxes payable	\$ 2,585	\$ -	\$ -	\$ 2,585
Due to other funds (Note 6)	-	3,250	4,908	8,158
Deferred revenue	34,346	-	138,500	172,846
Total liabilities	36,931	3,250	143,408	183,589
Fund Balances - Unreserved, reported in				
General Fund	230,651	-	-	230,651
Reserve for construction code fees	9,347	-	-	9,347
Debt Service Funds	-	38,794	20,282	59,076
Total fund balances	239,998	38,794	20,282	299,074
Total liabilities and fund balances	\$ 276,929	\$ 42,044	\$ 163,690	
Amounts reported for governmental activities in the statement of net assets are different because:				
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(575,950)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures				172,846
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,426,919
Net assets of governmental activities				\$ 1,322,889

Township of Fredonia, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Fire Truck Debt Fund	Sewer Bond Fund	
Revenue				
Property taxes	\$ 41,122	\$ 45,749	\$ -	\$ 86,871
Delinquent taxes and fees	13,608	-	-	13,608
Licenses and permits	21,758	-	-	21,758
State-shared revenues and grants	119,081	-	-	119,081
Contribution from other units	18,973	-	-	18,973
Charges for services	8,220	-	47,353	55,573
Interest	3,971	388	6,609	10,968
Special assessments	8,154	-	44,389	52,543
Other	6,327	(3,250)	12,167	15,244
	<u>241,214</u>	<u>42,887</u>	<u>110,518</u>	<u>394,619</u>
Expenditures - Current				
General government	144,993	-	-	144,993
Public safety	71,441	500	-	71,941
Public works	2,794	-	46	2,840
Debt service:				
Principal	22,858	49,098	90,000	161,956
Interest	1,257	10,125	9,505	20,887
	<u>243,343</u>	<u>59,723</u>	<u>99,551</u>	<u>402,617</u>
Net Change in Fund Balances	(2,129)	(16,836)	10,967	(7,998)
Fund Balances - Beginning of year	<u>242,127</u>	<u>55,630</u>	<u>9,315</u>	<u>307,072</u>
Fund Balances - End of year	<u>\$ 239,998</u>	<u>\$ 38,794</u>	<u>\$ 20,282</u>	<u>\$ 299,074</u>

Township of Fredonia, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (7,998)
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	(86,061)
Special assesment revenues are recorded in the statement of activities when the assesment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(10,044)
Repayment of debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>161,956</u>
Change in Net Assets of Governmental Activities	<u>\$ 57,853</u>

Township of Fredonia, Michigan

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Fredonia, Michigan (the "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 of Fredonia, Michigan:

Reporting Entity

The Township of Fredonia, Michigan is governed by an elected five-member board. The accompanying financial statements present the Township. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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.

Financial statements are provided for governmental funds and major individual governmental funds and are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund. 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.

Township of Fredonia, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies (Continued)

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 Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

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.

The Township reports the following major governmental funds:

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

Fire Truck Debt Fund - The Fire Truck Debt Fund accounts for property taxes levied to cover public safety debt.

Sewer Bond Fund - The Sewer Bond Fund accounts for special assessments received and the debt payments made on the sewer system.

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

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Township of Fredonia, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies (Continued)

The Township's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended June 30, 2007 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Township totaled \$49.9 million, on which taxes levied consisted of .8392 mills for operating purposes and .9976 mills for debt service. This resulted in \$41,000 for operating, which is recognized in the General Fund, and \$49,000 for debt service, which is recognized in the Fire Truck Debt Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank 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.

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 is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one 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.

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

Buildings and building improvements	20 to 30 years
Sewer system	50 years
Other tools and equipment	3 to 7 years
Vehicles	7 years

Township of Fredonia, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue - At the end of the current fiscal year, deferred revenue recorded in the governmental funds represents special assessment receivables for revenue that is not considered available at June 30, 2007 to liquidate liabilities of the current period.

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

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Surplus at July 1, 2006		\$	4,368
Current year building permit revenue	\$	15,928	
Related expenses - Direct costs		<u>(10,949)</u>	<u>4,979</u>
Surplus at June 30, 2007		\$	<u>9,347</u>

Township of Fredonia, Michigan

**Notes to Financial Statements
June 30, 2007**

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices 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; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures 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 that are legal for direct investment by local units of government in Michigan. The Township has designated three banks for the deposit of its funds.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in investments listed above. The Township's deposits and investment policies are in accordance with the statutory authority.

The Township's deposits are subject to the following risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Fredonia, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

Governmental Activities	Balance July 1, 2006	Additions	Balance June 30, 2007
Capital assets being depreciated:			
Buildings and improvements	\$ 193,706	\$ -	\$ 193,706
Sewer system	1,645,000	-	1,645,000
Other tools and equipment	11,900	-	11,900
Vehicles	<u>529,920</u>	<u>-</u>	<u>529,920</u>
Subtotal	2,380,526	-	2,380,526
Accumulated depreciation:			
Buildings and improvements	63,852	5,003	68,855
Sewer system	493,500	32,900	526,400
Other tools and equipment	5,216	3,169	8,385
Vehicles	<u>304,978</u>	<u>44,989</u>	<u>349,967</u>
Subtotal	<u>867,546</u>	<u>86,061</u>	<u>953,607</u>
Net capital assets	<u>\$ 1,512,980</u>	<u>\$ (86,061)</u>	<u>\$ 1,426,919</u>

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

Governmental activities:	
General government	\$ 6,977
Public safety	33,265
Public works	<u>45,819</u>
Total	<u>\$ 86,061</u>

Township of Fredonia, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. Installment purchase agreements and notes payable are general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

	Interest Rate Ranges	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Revenue bonds - Sewage disposal	2.00%	2011	\$ 475,000	\$ -	\$ (90,000)	\$ 385,000	\$ 95,000
Note payable	3.04%	2007	22,858	-	(22,858)	-	-
Installment purchase agreement	4.65%	2009	240,048	-	(49,098)	190,950	51,430
Total			<u>\$ 737,906</u>	<u>\$ -</u>	<u>\$ (161,956)</u>	<u>\$ 575,950</u>	<u>\$ 146,430</u>

The annual debt requirements, including principal and interest, are as follows:

Years Ending June 30	Governmental Activities
2008	\$ 161,922
2009	160,002
2010	186,026
2011	102,000
Total	<u>\$ 609,950</u>

Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Fire Truck Debt Fund	\$ 3,250
General Fund	Sewer Bond Fund	4,908
Total		<u>\$ 8,158</u>

These balances result from the time lag between the disbursement of property taxes and special assessments between funds.

Township of Fredonia, Michigan

**Notes to Financial Statements
June 30, 2007**

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all the above claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Required Supplemental Information

Township of Fredonia, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
Revenues				
Property taxes	\$ 80,000	\$ 80,000	\$ 54,730	\$ (25,270)
Licenses and permits	25,000	25,000	21,758	(3,242)
State-shared revenues and grants	170,000	170,000	119,081	(50,919)
Contribution from other units	21,000	21,000	18,973	(2,027)
Charges for services	10,000	10,000	8,220	(1,780)
Interest and rentals	70	70	3,971	3,901
Special assessments	-	-	8,154	8,154
Other	14,200	14,200	6,327	(7,873)
Total revenue	320,270	320,270	241,214	(79,056)
Expenditures				
General government	176,000	173,000	144,993	28,007
Public safety	72,300	75,300	71,441	3,859
Public works	25,000	25,000	2,794	22,206
Debt service:				
Principal	-	-	22,858	(22,858)
Interest	-	-	1,257	(1,257)
Total expenditures	273,300	273,300	243,343	29,957
Net Change in Fund Balance	46,970	46,970	(2,129)	(49,099)
Fund Balance - Beginning of year	242,127	242,127	242,127	-
Fund Balance - End of year	<u>\$ 289,097</u>	<u>\$ 289,097</u>	<u>\$ 239,998</u>	<u>\$ (49,099)</u>

Township of Fredonia, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget is approved by the Township at the June board meeting after a public hearing.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township of Fredonia incurred the following expenditures that were significantly in excess of amounts budgeted.

	Budget	Actual
General Fund - Debt service - Principal	\$ -	\$ 22,858

February 26, 2008

To the Members of the Fredonia
Township Board
Township of Fredonia
8803 17 Mile Road
Marshall, MI 49068

Dear Board Members:

In planning and performing our audit of the financial statements of the Township of Fredonia (the "Township") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

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

Accounts Payable

During our audit, we noted that accounts payable had not been recorded at year end. Historically, this amount has not been material to the financial statements; however, we recommend that expenses incurred but not paid as of year end be recorded.

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

Audit Adjustments

As part of the audit process, several adjustments, including adjusting the financial records from cash to accrual basis, were recommended to management to correct various general ledger balances as of June 30, 2007. Many transactions were found that had not been recorded in the accounting system of the Township. These journal entries were necessary in order for the financial statements to be materially correct.

Common Cash Bank Reconciliation

During our audit, we noted that bank reconciliations are still not being performed for the common cash accounts. The bank reconciliation process is a procedure mandated by the State of Michigan and is also an essential internal control for the Township. The accurate and timely preparation of bank reconciliations is vital to maintaining effective internal controls over cash, including knowledge of cash balances at any given time. Bank reconciliations should be performed monthly and should be reviewed by the supervisor.

Manual Journal Entries

During the audit, we noted that only one employee is responsible for initiating and posting journal entries. No approval is required and there is no evidence that entries are being reviewed. We recommend that the supervisor review all manual journal entries on a regular basis (at least quarterly). Reconciliations should be initialed to provide evidence of the review process. This will help to increase internal controls within the Township and help detect potential misstatements.

Other Items for Consideration

Board-approved Invoices

During the audit, we noted in the board minutes that invoices to be paid had been approved; however, we recommend that the listing of actual invoices approved be retained as part of the board minutes.

Capital Assets

During our audit, we noted that the Township does not keep track of all capital assets being purchased or sold. We recommend that the Township maintain a record of all capital asset additions and disposals each year, and properly record asset additions in the capital outlay accounts. For the accuracy of the financial records, it is imperative that every effort be made to identify capital asset purchases and disposals on an ongoing basis.

To the Members of the Fredonia
Township Board
Township of Fredonia

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February 26, 2008

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

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon L. Vargo, CPA
Partner