

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 Marion Township	County Charlevoix
Fiscal Year End 06/30/2007	Opinion Date 12/13/2007	Date Audit Report Submitted to State December 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- 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.
 - 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.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - 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.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - 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).
 - 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.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - 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"/>	Letter of Significant Deficiencies
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.	Telephone Number 231-775-9789	
Street Address 134 W. Harris Street	City Cadillac	State MI
		Zip 49601
Authorizing CPA Signature 	Printed Name Michael D. Cool, C.P.A.	License Number 1101023146

MARION TOWNSHIP, CHARLEVOIX COUNTY

CHARLEVOIX, MICHIGAN

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

JUNE 30, 2007

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December 13, 2007

INDEPENDENT AUDITORS' REPORT

To the Township Board
Marion Township
Charlevoix County
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, of Marion Township, Charlevoix County, Charlevoix, 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'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, each major fund, of Marion Township, Charlevoix County, Charlevoix, Michigan, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion Township, Charlevoix County, Charlevoix, Michigan's basic financial statements. The individual fund financial statement 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.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Marion Township, a general law township located in Charlevoix County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Marion Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$912,044. Of this amount, \$473,734 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$580,865 an increase of \$25,850 in comparison with the prior year. About \$473,734 is available for spending at the Township's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The Township's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

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

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

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

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$912,044 at June 30, 2007, meaning the Township’s assets were greater than its liabilities by this amount.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVIOX, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Marion Township
Net Assets as of June 30, 2007

Assets	
Current Assets	\$ 583,941
Non Current Assets	
Capital Assets	426,007
Less: Accumulated Depreciation	<u>(94,828)</u>
Total Non Current Assets	<u>331,179</u>
Total Assets	<u><u>\$ 915,120</u></u>
Liabilities	
Current Liabilities	<u>\$ 3,076</u>
Net Assets	
Invested in Capital Assets	331,179
Restricted for Specific Purposes	107,131
Unrestricted	<u>473,734</u>
Total Net Assets	<u>912,044</u>
Total Liabilities and Net Assets	<u><u>\$ 915,120</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$473,734 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

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

The total net assets of the Township increased by \$145,987 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Marion Township
Change in Net Assets
for the Fiscal Year Ended June 30, 2007

Revenues

Program Revenues

Charges for Services	\$ 9,795
Operating Grants and Contributions	3,583
Capital Grants and Contributions	6,792

General Revenues

Property Taxes	197,692
State Grants	100,315
Interest and Rents	15,618
Other	<u>2,040</u>

Total Revenues

335,835

Expenses

Legislative	26,784
General Government	55,562
Public Safety	36,629
Public Works	50,516
Community and Economic Development	11,614
Other Functions	<u>8,743</u>

Total Expenses

189,848

Change in Net Assets 145,987

NET ASSETS - Beginning of Year 766,057

NET ASSETS - End of Year \$ 912,044

Governmental Activities

During the fiscal year ended June 30, 2007, the Township's net assets increased by \$145,987 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

A significant part of the revenue for all governmental activities of Marion Township comes from property taxes. The Township levied a millage for road improvements in addition to the operating millages this fiscal year. The Township levied 0.9687 mills for operating purposes, and 1.4531 mills for road improvements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Township's governmental activities expenses are dominated by general government expenses. The Township spent \$55,562 in the fiscal year 2007 on general government expenses. Public works represented the next largest expense at \$50,516 followed by public safety at \$36,629.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Activities The focus of Marion Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Marion Township's governmental funds reported combined ending fund balances of \$580,865. Approximately \$473,734 of this total amount constitutes unreserved fund balance. The remainder of the fund balance is reserved or designated for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road improvements must be used for expenditures that relate to road improvements.

General Fund – The General Fund increased its fund balance by \$19,555 which brings the fund balance to \$473,734. All of the General Fund's fund balance is unreserved.

Road Fund – The Road Fund increased its fund balance by \$6,295 which brings the fund balance to \$107,131. This balance is reserved and must be used for road improvements.

Proprietary Fund - The Township does not maintain any proprietary funds.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Township Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Revenues, Change from Original to Final Budget:

	<u>General Fund</u>
Revenues	
Total Revenues Original Budget	\$ 206,366
Total Revenues Final Budget	<u>228,329</u>
Increase (Decrease) in Budgeted Revenues	<u>\$ 21,963</u>

Expenditures, Change from Original to Final Budget:

	<u>General Fund</u>
Expenditures	
Total Expenditures Original Budget	\$ 313,908
Total Expenditures Final Budget	<u>208,774</u>
Increase (Decrease) in Budgeted Expenditures	<u>\$ (105,134)</u>

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of June 30, 2007 amounted to \$331,179 net of accumulated depreciation. The total increase in the Township's investment in capital assets net of accumulated depreciation for the current fiscal year was \$120,137.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually (for purchases after June 30, 2003) and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Marion Township
Capital Assets as of June 30, 2007

Land	\$ 14,396
Buildings and Improvements	117,412
Infrastructure	272,960
Equipment	<u>21,239</u>
	426,007
Less Accumulated Depreciation	<u>94,828</u>
Net Capital Assets	<u><u>\$ 331,179</u></u>

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

Major capital asset events during the current fiscal year included the following:

- ◆ Received a voting machine through the Help America Vote Act.
- ◆ Road improvements were made in the Township.

Long-Term Debt

The Township had no outstanding long-term debt as of June 30, 2007.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Marion Township at 01362 Matchett Road, Charlevoix, Michigan 49720.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	\$ 548,312
Receivables	
Accounts Receivable	541
Due from Other Governments	32,263
External Parties (Fiduciary Funds)	2,825
Total Current Assets	<u>583,941</u>
<u>CAPITAL ASSETS</u>	
Land	14,396
Buildings and Improvements	117,412
Infrastructure	272,960
Equipment	21,239
	<u>426,007</u>
Less Accumulated Depreciation	94,828
Net Capital Assets	<u>331,179</u>
TOTAL ASSETS	<u>915,120</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	3,076
TOTAL LIABILITIES	<u>3,076</u>
<u>EQUITY</u>	
Net Assets:	
Invested in Capital Assets	331,179
Restricted for Road Improvements	107,131
Unrestricted	473,734
TOTAL NET ASSETS	<u>\$ 912,044</u>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>TOTAL GOVERNMENTAL ACTIVITIES</u>
Legislative	\$ 26,784	\$ 0	\$ 0	\$ 0	\$ (26,784)
General Government	55,562	6,895	0	6,792	(41,875)
Public Safety	36,629	0	0	0	(36,629)
Public Works	50,516	0	3,583	0	(46,933)
Community and Economic Development	11,614	2,900	0	0	(8,714)
Other Functions	8,743	0	0	0	(8,743)
Total	<u>\$ 189,848</u>	<u>\$ 9,795</u>	<u>\$ 3,583</u>	<u>\$ 6,792</u>	<u>(169,678)</u>
<u>GENERAL REVENUES</u>					
Taxes					197,692
State Grants					100,315
Interest and Rents					15,618
Other					2,040
Total General Revenues					<u>315,665</u>
Change in Net Assets					145,987
NET ASSETS - Beginning of Year					<u>766,057</u>
NET ASSETS - End of Year					<u>\$ 912,044</u>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2007

	<u>GENERAL FUND</u>	<u>ROAD FUND</u>	<u>TOTALS</u>
 <u>ASSETS</u>			
Cash	\$ 441,181	\$ 107,131	\$ 548,312
Accounts Receivable	541	0	541
Due from Other Funds	2,825	0	2,825
Due from Other Governments	32,263	0	32,263
TOTAL ASSETS	\$ 476,810	\$ 107,131	\$ 583,941
 <u>LIABILITIES AND FUND BALANCE</u>			
 <u>LIABILITIES</u>			
Accounts Payable	\$ 3,076	\$ 0	\$ 3,076
 <u>FUND BALANCE</u>			
Reserved for:			
Road Improvements	0	107,131	107,131
Unreserved			
Undesignated	473,734	0	473,734
Total Fund Balance	473,734	107,131	580,865
TOTAL LIABILITIES AND FUND BALANCE	\$ 476,810	\$ 107,131	\$ 583,941

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total Fund Balance for Governmental Funds \$ 580,865

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 therefore are not reported in the funds.

Land	\$ 14,396	
Buildings	117,412	
Infrastructure	272,960	
Equipment	21,239	
Accumulated Depreciation	<u>(94,828)</u>	<u>331,179</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 912,044

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2007

	GENERAL FUND	FIRE FUND	TOTALS
<u>REVENUES</u>			
Taxes	\$ 91,432	\$ 106,260	\$ 197,692
Licenses and Permits	2,900	0	2,900
Federal Grants	6,792	0	6,792
State Grants	103,898	0	103,898
Charges for Services	6,895	0	6,895
Interest and Rents	14,414	1,204	15,618
Other Revenues	1,998	42	2,040
	228,329	107,506	335,835
<u>EXPENDITURES</u>			
Legislative	26,784	0	26,784
General Government	56,778	0	56,778
Public Safety	36,629	0	36,629
Public Works	68,226	101,211	169,437
Community and Economic Development	11,614	0	11,614
Other Functions	8,743	0	8,743
	208,774	101,211	309,985
Net Change in Fund Balance	19,555	6,295	25,850
<u>FUND BALANCE</u> - Beginning of Year	454,179	100,836	555,015
<u>FUND BALANCE</u> - End of Year	\$ 473,734	\$ 107,131	\$ 580,865

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2007

Net change in Fund Balance - Total Governmental Funds	\$ 25,850
Amounts reported for governmental 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	(12,911)
Capital Outlay	<u>133,048</u>
 CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	 <u><u>\$ 145,987</u></u>

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 4,687
<u>LIABILITIES</u>	
Due to Other Funds	\$ 2,825
Due to Other Governments	1,862
Total Liabilities	\$ 4,687

The accompanying notes are an integral part of the financial statements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Marion Township is a general law township located in Charlevoix County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

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 non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

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 revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Marion Township reports the following major governmental funds:

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

The *Road Fund* accounts for revenue sources that are legally restricted to expenditures for road improvements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Additionally Marion Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township Treasurer to invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution with a location within the State of Michigan.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Township Treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share. (Recommendation--the above limitation is recommended, however, the Treasurer may also include mutual funds whose net asset value may fluctuate on a periodic basis by so stating in this area).
- (h) Investment pools organized under the Local Government Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

2 *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes, two-thirds of county taxes, and 100% of Charlevoix Public School's taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 15. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of Marion Township totaled \$73,258,768, on which ad valorem taxes levied consisted of 0.9687 mills for Marion Township operating purposes and 1.4531 mills for Marion Township road improvements. These levies raised approximately \$70,538 for operating purposes and \$106,260 for road improvements.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns 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 (amount not rounded) 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 date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building and land improvements	20
Public domain infrastructure	20
Vehicles	10
Equipment	5-10

5. *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. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

6. *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.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on June 19, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with Expenditures in Excess of Appropriations were as follows:

There were no expenditures in excess of appropriations as of June 30, 2007.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are on deposit with Citizens Bank, Charlevoix State Bank, and Bay Winds Federal Credit Union all in Charlevoix, Michigan.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2007, \$153,028 of the government's bank balance of \$555,463 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>	<u>Road</u>	<u>Total</u>
Receivables			
Accounts Receivable	\$ 541	\$ 0	\$ 541
Due from Other Governments	32,263	0	32,263
Total Receivables	<u>\$ 32,804</u>	<u>\$ 0</u>	<u>\$ 32,804</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

C. Capital Assets

Primary Government	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 14,396	\$ 0	\$ 0	\$ 14,396
Capital assets, being depreciated				
Buildings and Improvements	117,412	0	0	117,412
Infrastructure	146,704	126,256	0	272,960
Equipment	14,447	6,792	0	21,239
Total capital assets, being depreciated	<u>278,563</u>	<u>133,048</u>	<u>0</u>	<u>411,611</u>

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings and Improvements	\$ 75,171	\$ 4,720	\$ 0	\$ 79,891
Infrastructure	0	7,335	0	7,335
Equipment	6,746	856	0	7,602
Total accumulated depreciation	81,917	12,911	0	94,828
Total capital assets, being depreciated, net	196,646	120,137	0	316,783
Governmental activities capital assets, net	\$211,042	\$120,137	\$ 0	\$331,179

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

Governmental activities:

General Government	\$ 5,576
Public Works	7,335
	\$ 12,911

Construction Commitments:

The government has no outstanding construction commitments as of June 30, 2007.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2007, were:

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
<u>Fund</u>		
General Fund	\$ 2,825	\$ 0
Fiduciary Funds		
Current Tax Collection Fund	0	2,825
	\$ 2,825	\$ 2,825

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

As of June 30, 2007, there were no Interfund Transfers.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

As of June 30, 2007, the Township has no outstanding long-term debt.

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. In addition, certain portions of unreserved fund balances have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

 Special Revenue Fund

 Road Fund

 Road Improvements

\$107,131

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Subsequent Event

In July 2007 the Township board approved road improvement contracts totaling \$209,458.

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	<u>GENERAL FUND</u>			<u>ROAD FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>						
Taxes	\$ 90,966	\$ 91,432	\$ 91,432	\$ 106,452	\$ 106,260	\$ 106,260
Licenses and Permits	2,300	2,900	2,900	0	0	0
Federal Grants	0	6,792	6,792	0	0	0
State Grants	96,000	103,898	103,898	0	0	0
Charges for Services	0	6,895	6,895	0	0	0
Interest and Rents	15,000	14,414	14,414	450	1,204	1,204
Other Revenues	2,100	1,998	1,998	0	42	42
Total Revenues	<u>206,366</u>	<u>228,329</u>	<u>228,329</u>	<u>106,902</u>	<u>107,506</u>	<u>107,506</u>
<u>EXPENDITURES</u>						
Legislative						
Township Board	35,450	26,784	26,784	0	0	0
General Government						
Supervisor	7,060	7,060	7,060	0	0	0
Election	2,500	8,432	8,432	0	0	0
Assessor	16,500	16,000	16,000	0	0	0
Clerk	9,700	9,700	9,700	0	0	0
Board of Review	1,300	1,090	1,090	0	0	0
Treasurer	9,700	9,700	9,700	0	0	0
Building and Grounds	6,000	1,896	1,896	0	0	0
Cemetery	15,000	2,900	2,900	0	0	0
Public Safety						
Ambulance	10,000	7,326	7,326	0	0	0
Fire	31,000	29,303	29,303	0	0	0
Public Works						
Roads	143,098	68,226	68,226	106,902	101,211	101,211
Community and Economic Development						
Planning and Zoning	14,100	11,614	11,614	0	0	0
Other Functions						
Insurance	6,500	6,038	6,038	0	0	0
Employee Benefits	4,000	2,705	2,705	0	0	0
Contingency	2,000	0	0	0	0	0
Total Expenditures	<u>313,908</u>	<u>208,774</u>	<u>208,774</u>	<u>106,902</u>	<u>101,211</u>	<u>101,211</u>
Net Change in Fund Balance	(107,542)	19,555	19,555	0	6,295	6,295
<u>FUND BALANCE</u> - Beginning of Year	<u>387,107</u>	<u>454,179</u>	<u>454,179</u>	<u>100,836</u>	<u>100,836</u>	<u>100,836</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 279,565</u>	<u>\$ 473,734</u>	<u>\$ 473,734</u>	<u>\$ 100,836</u>	<u>\$ 107,131</u>	<u>\$ 107,131</u>

MARION TOWNSHIP, CHARLEVOIX COUNTY
CHARLEVOIX, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2007

	BALANCE		BALANCE	
	7/1/2006	ADDITIONS	DEDUCTIONS	6/30/2007
<u>CURRENT TAX COLLECTION FUND</u>				
<u>ASSETS</u>				
Cash	\$ 397	\$ 2,009,099	\$ 2,004,809	\$ 4,687
<u>LIABILITIES</u>				
Due to Other Funds	\$ 397	\$ 184,030	\$ 181,602	\$ 2,825
Due to Other Organizations and Individuals	0	9,844	9,844	0
Due to Other Governments	0	1,815,225	1,813,363	1,862
Total Liabilities	\$ 397	\$ 2,009,099	\$ 2,004,809	\$ 4,687

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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December 13, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Marion Township
Charlevoix County
Charlevoix, Michigan

During the course of our audit of the financial statements of Marion Township for the year ended June 30, 2007, we noted the following:

Budgeting

PA 621 requires that the budget be amended during the year before incurring expenditures in excess of appropriations. It was noted during our audit that the amendment to the budget was made after the year had ended.

Board Approval of Bills

During our audit we noted that the township is approving bills at each meeting. This meets the requirement set forth by the Michigan Department of Treasury. We suggest that as a way to strengthen internal controls, the list of bills being approved is initialed by a trustee or the supervisor and the list retained either in the board minute book, or in the monthly invoice folders. By doing this, the list can be used as a reference if a question ever arises about which bills were approved.

We would like to thank the board for its confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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December 13, 2007

To the Township Board
Marion Township
Charlevoix County
Charlevoix, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion Township, Charlevoix County, Charlevoix, Michigan 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 Marion Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit'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 a 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 deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a 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 deficiencies described in (1) above (Lack of Segregation of Duties) constitute a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.