

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 Melrose Township	County Charlevoix
Fiscal Year End 3/31/07	Opinion Date 07/26/07	Date Audit Report Submitted to State 08/15/07	

We affirm that:

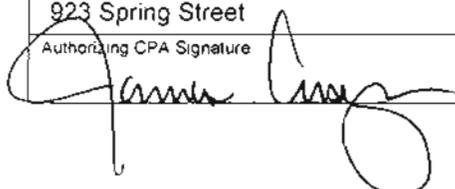
We are certified public accountants licensed to practice in Michigan.

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.)
- YES NO 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.
 - YES NO 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.
 - YES NO The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - YES NO The local unit has adopted a budget for all required funds.
 - YES NO A public hearing on the budget was held in accordance with State statute.
 - YES NO 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.
 - YES NO The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - YES NO The local unit only holds deposits/investments that comply with statutory requirements.
 - YES NO 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).
 - YES NO 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.
 - YES NO The local unit is free of repeated comments from previous years
 - YES NO The audit opinion is UNQUALIFIED.
 - YES NO The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - YES NO The board or council approves all invoices prior to payment as required by charter or statute.
 - YES NO To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

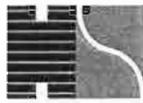
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP		Telephone Number 231-347-4136	
Street Address 923 Spring Street		City Petoskey	State MI
Authorizing CPA Signature 		Printed Name James Cusenza	Zip 49770
		License Number 01110024	

FINANCIAL REPORT
MELROSE TOWNSHIP
March 31, 2007

MELROSE TOWNSHIP
FINANCIAL REPORT
March 31, 2007

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July 25, 2007

Independent Auditors' Report

Township Board
Melrose Township
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of Melrose Township, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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.

The financial statements do not include all the financial activities of the Melrose Township Fire Department, which should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of Melrose Township, as of March 31, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

The budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but is 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

MELROSE TOWNSHIP
Statement of Net Assets
March 31, 2007

<u>Assets</u>	<u>Primary Government Governmental Activities</u>	<u>Component Unit Downtown Development Authority</u>
Current Assets		
Cash	\$ 113,658	\$ -
Investments	748,719	-
Taxes receivable	52,784	-
Due from component unit	6,878	-
Due from fiduciary funds	5,174	-
Prepaid expenses	7,931	-
Total current assets	<u>935,144</u>	<u>-</u>
Noncurrent Assets		
Capital assets	1,633,554	-
Less: accumulated depreciation	(308,022)	-
Total noncurrent assets	<u>1,325,532</u>	<u>-</u>
Total assets	<u>\$ 2,260,676</u>	<u>\$ -</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 119,271	\$ -
Accrued expenses	11,626	-
Due to primary government	-	6,878
Accrued interest	17,088	-
Bonds payable, due within one year	15,000	-
Total current liabilities	<u>162,985</u>	<u>6,878</u>
Noncurrent Liabilities		
Bonds payable, net	950,000	-
Total liabilities	<u>1,112,985</u>	<u>6,878</u>
Net Assets		
Invested in capital assets, net of related debt	360,532	-
Restricted for:		
Roads	432,325	-
Fire operations	55,483	-
Fire sinking	46,688	-
Debt retirement	101,036	-
Unrestricted	151,627	(6,878)
Total net assets	<u>1,147,691</u>	<u>(6,878)</u>
Total liabilities and net assets	<u>\$ 2,260,676</u>	<u>\$ -</u>

MELROSE TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Development Authority
Primary Government						
Governmental activities:						
General government	\$ 121,045	\$ 3,900	\$ -	\$ -	\$ (117,145)	\$ -
Public safety	37,629	-	4,000	15,500	(18,129)	-
Public works	71,628	50,151	-	-	(21,477)	-
Community and econ. development	39,820	15,290	-	-	(24,530)	-
Health and welfare	3,192	-	-	-	(3,192)	-
Recreation and cultural	14,576	-	-	-	(14,576)	-
Other	38,553	-	-	-	(38,553)	-
Interest on long-term debt	41,065	-	-	-	(41,065)	-
Unallocated depreciation	66,982	-	-	-	(66,982)	-
Total primary government	\$ 434,490	\$ 69,341	\$ 4,000	\$ 15,500	(345,649)	-
Component Unit						
Downtown Development Authority						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General revenues:						
Property taxes					573,687	-
State shared revenues					98,261	-
Interest and rentals					30,848	-
Other					8,427	-
Total general revenues					711,223	-
Change in net assets					365,574	-
Net assets - beginning of year					782,117	-
Net assets - end of year					\$ 1,147,691	\$ -

MELROSE TOWNSHIP
Balance Sheet
Governmental Funds
March 31, 2007

<u>Assets</u>	General	County Road	Road	Fire Operating	Fire Sinking	Fire Hall Debt Retirement	Fire Hall Building	Total Governmental Funds
Cash	\$ 1,737	31	\$ 93	\$ 31	\$ 677	\$ 110,580	\$ 509	\$ 113,658
Investments	133,426	168,519	238,580	57,329	150,865	-	-	748,719
Taxes receivable	11,386	16,905	8,197	4,372	4,380	7,544	-	52,784
Due from other funds	5,702	-	-	-	-	-	-	5,702
Due from component units	6,878	-	-	-	-	-	-	6,878
Prepaid expenditures	221	-	-	-	-	-	-	221
Total assets	\$ 159,350	\$ 185,455	\$ 246,870	\$ 61,732	\$ 155,922	\$ 118,124	\$ 509	\$ 927,962
<u>Liabilities and Fund Balances</u>								
Liabilities								
Accounts payable	\$ 9,565	-	\$ -	\$ 297	\$ 109,234	\$ -	\$ 175	\$ 119,271
Accrued expenditures	6,202	-	-	5,424	-	-	-	11,626
Due to other funds	-	-	-	528	-	-	-	528
Total liabilities	15,767	-	-	6,249	109,234	-	175	131,425
Fund balances								
Reserved for:								
Prepays	221	-	-	-	-	-	-	221
Roads	-	185,455	246,870	-	-	-	-	432,325
Fire operations	-	-	-	55,483	-	-	-	55,483
Fire sinking	-	-	-	-	46,688	-	-	46,688
Debt service	-	-	-	-	-	118,124	-	118,124
Unreserved:								
Undesignated	143,362	-	-	-	-	-	334	143,696
Total fund balances	143,583	185,455	246,870	55,483	46,688	118,124	334	796,537
Total liabilities and fund balances	\$ 159,350	\$ 185,455	\$ 246,870	\$ 61,732	\$ 155,922	\$ 118,124	\$ 509	\$ 927,962

MELROSE TOWNSHIP
Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets
March 31, 2007

Total Fund Balance - Governmental Funds \$ 796,537

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

Governmental funds report capital outlays as expenditures. However,
in the statement of net assets, these assets are capitalized and depreciated
over their estimated useful lives.

Governmental capital assets	1,633,554
Accumulated depreciation	(308,022)

Prepaid insurance costs are not available for current-period expenditures and therefore are not reported in the governmental funds.	7,710
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Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds.	(17,088)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(965,000)</u>
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Net Assets of Governmental Activities	<u><u>\$ 1,147,691</u></u>
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MELROSE TOWNSHIP
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2007

	General	County Road	Road	Fire Operating	Fire Sinking	Fire Hall Debt Retirement	Fire Hall Building	Total Governmental Funds
Revenues								
Taxes	\$ 128,912	\$ 183,936	\$ 89,222	\$ 46,144	\$ 46,149	\$ 79,324	\$ -	\$ 573,687
State grants	98,261	-	-	-	-	-	-	98,261
Contributions from local units	-	-	-	4,000	-	-	-	4,000
Charges for services	69,341	-	-	-	-	-	-	69,341
Interest and rentals	10,288	1,519	8,315	1,585	6,780	2,361	-	30,848
Other	8,427	-	-	-	15,500	-	-	23,927
Total revenues	315,229	185,455	97,537	51,729	68,429	81,685	-	800,064
Expenditures								
Current:								
General government	121,045	-	-	-	-	-	-	121,045
Public safety	-	-	-	37,629	-	-	-	37,629
Public works	44,953	-	26,675	-	-	-	-	71,628
Community and econ. development	39,820	-	-	-	-	-	-	39,820
Health and welfare	3,192	-	-	-	-	-	-	3,192
Recreation and cultural	14,576	-	-	-	-	-	-	14,576
Other	38,133	-	-	-	-	-	420	38,553
Capital outlay	-	-	-	-	171,933	-	-	171,933
Debt service	-	-	-	-	-	56,331	-	56,331
Total expenditures	261,719	-	26,675	37,629	171,933	56,331	420	554,707
Net change in fund balances	53,510	185,455	70,862	14,100	(103,504)	25,354	(420)	245,357
Fund balances - beginning of year	90,073	-	176,008	41,383	150,192	92,770	754	551,180
Fund balances - end of year	\$ 143,583	\$ 185,455	\$ 246,870	\$ 55,483	\$ 46,688	\$ 118,124	\$ 334	\$ 796,537

MELROSE TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended March 31, 2007

Net Change In Fund Balances - Total Governmental Funds \$ 245,357

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.

Expenditures for capital assets	171,933
Current year depreciation	(66,982)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt uses current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments	15,000
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Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Change in Net Assets of Governmental Activities \$ 365,574

MELROSE TOWNSHIP
Statement of Fiduciary Net Assets
Fiduciary Fund
March 31, 2007

	<u>Agency Tax Fund</u>
<u>Assets</u>	
Cash	\$ <u>5,174</u>
<u>Liabilities</u>	
Due to other funds	\$ <u>5,174</u>

MELROSE TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township operates under a Board-Supervisor form of government and provides the following services as authorized by common law: public safety (fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The Township's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Township of Melrose:

REPORTING ENTITY

These financial statements present the Township (the primary government) and its component unit. As defined by GASBS No. 14, component units are legally separate entities that are included in the Township's reporting entity because of the significance of their operating or financial relationships with the Township. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority, which was established pursuant to the provisions of Public Act 197 of 1975, as amended, is governed by a board appointed by the Township Board. The Authority may issue debt subject to limitations set forth in the Act, but may not expend any monies without prior approval of the Township Board. Separate financial statements for the Downtown Development Authority are not issued.

BASIC FINANCIAL STATEMENTS – OVERVIEW

The Melrose Township's basic financial statements include both government-wide (reporting the Township as a whole) and fund financial statements (reporting the Township's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Township as an entity and the change in the Township's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Township's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the 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 as general revenue.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Township are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

Governmental Funds

The following is a description of the major governmental funds of the Township:

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

County Road Fund – The County Road Fund accounts for taxes levied for the purpose of road maintenance, repair and construction on county primary roads.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Governmental Funds – Continued

Road Fund – The Road Fund accounts for taxes levied for the purpose of local road construction and maintenance.

Fire Operating Fund – The Fire Operating Fund accounts for taxes levied, amounts received from other governmental units used for fire department operations.

Fire Sinking Fund – The Fire Sinking Fund accounts for taxes levied for the purpose of acquiring fire equipment for the fire department.

Fire Hall Debt Retirement – The Fire Hall Debt Retirement Fund accounts for taxes levied for the purpose of paying the interest and principal on the 2004 general obligation bonds, the proceeds of which were accounted for in the Fire Hall Building Fund.

Fire Hall Building Fund - The Fire Hall Building Fund accounts for the expenditure of the proceeds of the 2004 general obligation bonds for the purpose of acquiring, constructing, furnishing and equipping an addition to, and renovating township/fire hall, acquiring and improving the site and parking therefore, and the cost of issuing the bonds.

Fiduciary Funds

The fiduciary funds are used to account for assets held by the Township in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Agency funds use the accrual basis of accounting, however report only assets and liabilities.

Agency Fund – The Agency Fund accounts for the collection and payment of property tax levies.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIS OF ACCOUNTING – CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are recorded by the Township when the initial individual costs are greater than \$3,000, and acquired after June 15, 1999. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings	40 years
Infrastructure improvements	20 years
Equipment	7 to 10 years
Vehicles	10 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

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 are reported as other financing uses.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Fund Equity

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

COMPARATIVE DATA

Comparative data for the prior year is not included in the Township's financial statements.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the Township except for the agency funds. Additionally, no budget was prepared for the County Road Fund during fiscal 2007. This was the first year property taxes were collected for this purpose and no expenditures were made. A budget was adopted for fiscal 2008. Budgetary control is legally maintained at the fund level.

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

1. Prior to April 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing April 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at Township Hall to obtain taxpayer comments.
3. Prior to April 1, the fund budgets are legally enacted through passage of resolutions.
4. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
5. Budgeted amounts are as originally adopted, or as amended by the Township Board.
6. All appropriations lapse at year-end.

During the year, the Township incurred expenditures which were in excess of the amounts appropriated for the following Funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
Road	\$ 12,000	\$ 26,675	\$ 14,675

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township's deposits and investment policy are in accordance with statutory authority.

Custodial Credit Risk – 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. At March 31, 2007, the carrying amount of the Township's deposits for both governmental activities and the fiduciary fund was \$118,832 and the bank balance was \$119,136. Of the bank balance, \$102,810 was covered by federal depository insurance. The remaining \$16,326 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds. The Township may experience significant fluctuations in deposit balances through the year.

Credit Risk – Investments. As of March 31, 2007, the Township's investments were in a Fifth Third Bank Local Units of Government account. The credit rating for this government investment pool was not determined.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the Township. The Township bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year in which they are levied.

The Township is permitted by state law, subject to State Headlee and Truth in Taxation provisions, up to \$2 per \$1,000 of taxable valuation for county road maintenance, repair and construction, up to \$1 per \$1,000 of taxable valuation for both general governmental services and road maintenance, repair and construction, \$.5 per \$1,000 for both fire operations and equipment. Additionally, the Township is authorized to levy the amount necessary for the payment of principal and interest on general obligation long-term debt. The 2006 State taxable valuation of Melrose Township totaled \$92,840,155.

The tax rate for the year ended March 31, 2007, was as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>	
General governmental services	.9698	per \$1,000
County Road	2.0000	per \$1,000
Roads	.9698	per \$1,000
Fire operations	.5000	per \$1,000
Fire equipment	.5000	per \$1,000
Debt	.8594	per \$1,000

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: CAPITAL ASSETS

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

	Balance April 1, 2006	Additions	Deletions	Balance March 31, 2007
Governmental Activities				
Capital assets				
being depreciated:				
Fire and Township Hall	\$ 1,017,163	\$ -	\$ -	\$ 1,017,163
Beach, park and launch ramp improv.	68,935	-	-	68,935
Equipment	89,551	-	-	89,551
Vehicles	285,972	171,933	-	457,905
Subtotal	<u>1,461,621</u>	<u>171,933</u>	<u>-</u>	<u>1,633,554</u>
Accumulated Depreciation:				
Fire and Township Hall	19,072	25,429	-	44,501
Beach, park and launch ramp improv.	14,316	3,447	-	17,763
Equipment	32,116	9,510	-	41,626
Vehicles	175,536	28,596	-	204,132
Subtotal	<u>241,040</u>	<u>66,982</u>	<u>-</u>	<u>308,022</u>
Net capital assets				
being depreciated	<u>\$ 1,220,581</u>	<u>\$ 104,951</u>	<u>\$ -</u>	<u>\$ 1,325,532</u>

Depreciation expense was charged to the primary government as follows:

Governmental Activities

Unallocated \$ 66,982

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: LONG-TERM DEBT

The following is a summary of the Township's long-term debt transactions for the year ended March 31, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental Activities					
Bonds and notes payable:					
General obligation debt					
2004 Series	\$ 980,000	\$ -	\$ 15,000	\$ 965,000	\$ 15,000

Long-term liabilities payable at March 31, 2007 is composed of the following individual issues:

\$995,000, 2004 USDA General Obligation bonds due in annual installments of \$15,000 to \$60,000 through May 1, 2034; interest at 4.25%.	\$ 965,000
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The annual debt service requirements to maturity for the bonds outstanding as of March 31, 2007, are as follows:

<u>Year Ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,000	\$ 40,694	\$ 55,694
2008	15,000	40,056	55,056
2009	20,000	39,313	59,313
2010	20,000	38,463	58,463
2011	20,000	37,613	57,613
2012-2016	115,000	174,356	289,356
2017-2021	150,000	146,413	296,413
2022-2026	190,000	110,075	300,075
2027-2031	245,000	64,281	309,281
2032-2034	175,000	11,369	186,369
Total	\$ 965,000	\$ 702,633	\$ 1,667,633

NOTE 7: RISK MANAGEMENT

The Township carries commercial insurance for various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Settled claims have not exceeded coverage in any of the past three years.

MELROSE TOWNSHIP
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Beginning of year fund balance	\$ 73,851	\$ 73,851	\$ 90,073	\$ 16,222
Resources (inflows)				
Property taxes	116,794	116,794	128,912	12,118
State grants	97,042	97,042	98,261	1,219
Charges for services	63,000	63,000	69,341	6,341
Interest and rentals	800	800	10,288	9,488
Other	10,000	10,000	8,427	(1,573)
	<u>361,487</u>	<u>361,487</u>	<u>405,302</u>	<u>43,815</u>
Amounts available for appropriation				
Charges to appropriations (outflows)				
General government				
Board	13,846	13,846	10,813	(3,033)
Supervisor	11,303	11,303	11,108	(195)
Clerk	10,917	10,917	9,820	(1,097)
Information technology	3,000	3,000	3,000	-
Board of review	1,420	1,420	1,265	(155)
Treasurer	18,686	18,686	16,326	(2,360)
Assessor	18,025	18,025	18,965	940
Elections	2,700	2,700	2,309	(391)
Building and grounds	14,835	14,835	14,278	(557)
Township property	11,474	11,474	13,079	1,605
Legal	15,000	15,000	12,913	(2,087)
Cemetery	7,084	7,084	7,169	85
Public works				
Street lighting	5,000	5,000	5,779	779
Transfer station	45,000	45,000	39,174	(5,826)
Health and welfare				
Ambulance	1,595	1,595	3,192	1,597
Community and economic development				
Planning and zoning	37,140	37,140	39,820	2,680
Recreation and cultural				
Parks	18,509	18,509	14,576	(3,933)
Other	42,102	42,102	38,133	(3,969)
	<u>277,636</u>	<u>277,636</u>	<u>261,719</u>	<u>(15,917)</u>
Total charges to appropriations				
Ending budgetary fund balance	<u>\$ 83,851</u>	<u>\$ 83,851</u>	<u>\$ 143,583</u>	<u>\$ 59,732</u>

MELROSE TOWNSHIP
Budgetary Comparison Schedule
County Road Fund
For the Year Ended March 31, 2007

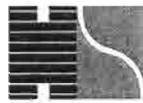
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Beginning of year fund balance	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Taxes	-	-	183,936	183,936
Interest	-	-	1,519	1,519
	-	-	185,455	185,455
Amounts available for appropriation	-	-	185,455	185,455
Charges to appropriations (outflows)				
Public works				
Road repair and maintenance	-	-	-	-
Construction	-	-	-	-
Ending budgetary fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,455</u>	<u>\$ 185,455</u>

MELROSE TOWNSHIP
Budgetary Comparison Schedule
Road Fund
For the Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Beginning of year fund balance	\$ 156,550	\$ 156,550	\$ 176,008	\$ 19,458
Resources (Inflows)				
Taxes	73,000	73,000	89,222	16,222
State grants	-	-	-	-
Interest	1,000	1,000	8,315	7,315
	<u>230,550</u>	<u>230,550</u>	<u>273,545</u>	<u>42,995</u>
Amounts available for appropriation				
	230,550	230,550	273,545	42,995
Charges to appropriations (outflows)				
Public works				
Road repair and maintenance	12,000	12,000	26,675	14,675
	<u>12,000</u>	<u>12,000</u>	<u>26,675</u>	<u>14,675</u>
Ending budgetary fund balance	<u>\$ 218,550</u>	<u>\$ 218,550</u>	<u>\$ 246,870</u>	<u>\$ 28,320</u>

MELROSE TOWNSHIP
 Budgetary Comparison Schedule
 Fire Operating Fund
 For the Year Ended March 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning of year fund balance	\$ 42,407	\$ 42,407	\$ 41,383	\$ (1,024)
Resources (inflows)				
Taxes	38,960	38,960	46,144	7,184
Contributions from local units	4,000	4,000	4,000	-
Interest	150	150	1,585	1,435
Amounts available for appropriation	85,517	85,517	93,112	7,595
Charges to appropriations (outflows)				
Public safety				
Fire	43,110	43,110	37,629	(5,481)
Ending budgetary fund balance	<u>\$ 42,407</u>	<u>\$ 42,407</u>	<u>\$ 55,483</u>	<u>\$ 13,076</u>



July 26, 2007

COMMUNICATION OF MATERIAL WEAKNESS IN INTERNAL CONTROL AND OTHER MATTERS

Township Board
Melrose Township
Charlevoix County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, and each major fund of Melrose Township except the Melrose Township Fire Department as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Melrose Township's internal control over financial reporting (internal control) 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 a certain deficiency in internal control that we consider to be a material weakness.

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.

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 following deficiency constitutes a material weakness:

The Township does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to newly issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

We did note the Township's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

We have also noted other matters for your consideration:

Appropriation Act: The appropriation act should be part of the body of the minutes, indicating budgeted beginning fund balances, revenues by source, total fund expenditures and the budgeted ending fund balances.

Treasurer and Clerk Duties: It should be noted that the Treasurer has been performing general ledger accounting duties which are the responsibility of the Clerk. The Township has functioned satisfactorily for many years in this manner. However, in the future this may need to be reconsidered depending on the people in those positions. The Board's approval of bills for payment and the dual signatures of the Clerk and Treasurer do help in providing internal controls.

Budget Amendments: We noted that the Board did approve larger expenditures which were not part of the original budget, such as for road work without amending the budget. The budget should be formally amended before incurring such expenditures and should also be amended when it becomes apparent that there will be other significant differences from the original budget such as when actual revenues will be considerably higher than those originally budgeted.

Debt Millage: The Township is authorized to levy the amount necessary for the payment of principal and interest on general obligation long-term debt. At March 31, 2007 the Fire Hall Debt Retirement Fund had enough cash for approximately the next two years principal and interest payments. The millage requested to be levied in the future for this purpose should be carefully evaluated.

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

Hill, Schroderus & Co.

HILL, SCHRODERUS & CO.
Certified Public Accounts