

**Charter Township of East Bay
Grand Traverse County, Michigan**

**Financial Report
with Supplemental Information
December 31, 2007**

Charter Township of East Bay

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Independent Auditor's Report

To the Township Board
Charter Township of East Bay

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Charter Township of East Bay as of and for the year ended December 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 Charter Township of East Bay'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, the business-type activities, each major fund, and the aggregate remaining fund information of Charter Township of East Bay as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, 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 and the budgetary comparison schedules as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Township Board
Charter Township of East Bay

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

Plante & Moran, PLLC

June 16, 2008

Charter Township of East Bay

Management's Discussion and Analysis

Our discussion and analysis of Charter Township of East Bay, Grand Traverse County, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2007:

- Total net assets related to the Township's governmental activities increased by approximately \$606,000.
- The fund balance in the General Fund increased by approximately \$170,000, increasing fund balance to approximately \$463,000 from the prior year fund balance of approximately \$293,000.
- Property tax revenue in the Township's governmental activities increased by approximately \$128,000.
- Charges for services revenue in the Water and Sewer Fund decreased by approximately \$302,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

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

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006		2006		2006	
	2007	(as restated)	2007	(as restated)	2007	(as restated)
Assets						
Current assets	\$ 2,814	\$ 2,371	\$ 2,664	\$ 2,438	\$ 5,478	\$ 4,809
Noncurrent assets	<u>3,201</u>	<u>2,952</u>	<u>15,673</u>	<u>15,977</u>	<u>18,874</u>	<u>18,929</u>
Total assets	6,015	5,323	18,337	18,415	24,352	23,738
Liabilities						
Current liabilities	1,825	1,418	1,008	720	2,833	2,138
Long-term liabilities	<u>100</u>	<u>421</u>	<u>8,474</u>	<u>9,216</u>	<u>8,574</u>	<u>9,637</u>
Total liabilities	<u>1,925</u>	<u>1,839</u>	<u>9,482</u>	<u>9,936</u>	<u>11,407</u>	<u>11,775</u>
Net Assets						
Invested in capital assets -						
Net of related debt	1,295	1,263	6,508	6,136	7,803	7,399
Restricted	746	598	-	-	746	598
Unrestricted	<u>2,049</u>	<u>1,623</u>	<u>2,347</u>	<u>2,343</u>	<u>4,396</u>	<u>3,966</u>
Total net assets	<u>\$ 4,090</u>	<u>\$ 3,484</u>	<u>\$ 8,855</u>	<u>\$ 8,479</u>	<u>\$ 12,945</u>	<u>\$ 11,963</u>

The Township's combined net assets increased 8.2 percent from a year ago, increasing from \$11,962,987 to \$12,945,316. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities increased by approximately \$606,000 and net assets of business-type activities increased by approximately \$376,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$426,000 for the governmental activities. This represents an increase of 26 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,049,216, or about 113 percent, of expenditures.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year and as compared to the prior year (in thousands of dollars):

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue -						
Charges for services	\$ 384	\$ 338	\$ 1,719	\$ 2,021	\$ 2,103	\$ 2,359
General revenue:						
Property taxes	1,240	1,112	-	-	1,240	1,112
State-shared revenue	671	680	-	-	671	680
Unrestricted investment earnings	73	62	78	51	151	113
Franchise fees	71	68	-	-	71	68
Other revenue	8	81	27	52	35	133
Total revenue	2,447	2,341	1,824	2,124	4,271	4,465
Program Expenses						
General government	729	740	-	-	729	740
Public safety	894	853	-	-	894	853
Public works	144	141	-	-	144	141
Recreation and culture	56	46	-	-	56	46
Interest on long-term debt	18	13	-	-	18	13
Water and sewer	-	-	1,448	1,469	1,448	1,469
Total program expenses	1,841	1,793	1,448	1,469	3,289	3,262
Change in Net Assets	\$ 606	\$ 548	\$ 376	\$ 655	\$ 982	\$ 1,203

Governmental Activities

The Township's property tax revenue increased by approximately \$128,000 due to increased property tax values. Charges for services increased by \$46,000 for increased cable franchise fees collected during 2007. Other revenue decreased by \$73,000 due to a collection of final fraud damages in 2006.

Overall, the Township increased spending in some areas. The fee for the public safety labor contract paid to the joint venture increased during 2007 by \$51,000.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. The Grand Traverse County Department of Public Works (GTDPW) provides water services to the residents of Grand Traverse County, including Charter Township of East Bay. GTDPW bills the residents for these services and passes the related funds on to the Township. Revenue and expenses from the sale of water was \$977,000 and \$369,000, respectively, in 2007.

The Township entered into a master sewer agreement with the City of Traverse City and various townships in Grand Traverse and Leelanau Counties, as well as Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. The Township pays an amount sufficient to cover its pro rata share of treatment plant costs, as determined by its volume of sewage treated in relation to total sewage treated at the plant. The Township's revenue and expenses from sewage disposal were \$742,000 and \$354,000, respectively, in 2007.

Additional costs incurred in relation to both water and sewer included depreciation expense of \$362,000 and interest expense of \$354,000. In total, revenues exceeded expense for the combined Water and Sewer Fund by \$376,000 primarily due to increased water and sewer rates and usage by the Township residents.

The Township's Funds

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2007 include the General Fund and the Emergency Services Fund.

General Fund Budgetary Highlights

There was one significant variation between original and final budget amount to increase public safety - sheriff patrol by \$50,000 due to budgeting for fewer full-time equivalents that the Township was actually able to fund. Actual revenue was \$20,000 less than budgeted revenue. Actual expenditures were \$146,000 less than budgeted primarily due to fewer employees covered under health insurance and budgeting for replacement of two furnaces that were not replaced as planned. Fund balance was \$127,000 more than budgeted at December 31, 2007.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Township had \$17,343,000 invested in a broad range of capital assets, including buildings, ambulance, fire, compactor equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township and these shared costs have been capitalized, even though these roads are the property of the Grand Traverse County Road Commission. In a prior period adjustment, the Township recognized its portion of the construction in progress related to the septage treatment plant project held at the County. See Note 11 for more discussion.

Debt

At the end of the year, the Township had \$9 million in bonds outstanding versus \$7.3 million in the previous year, a change of 23 percent. In a prior period adjustment, the Township recognized their portion of the debt related to the septage treatment plant project held at the County. See Note 11 for more discussion.

Economic Factors and Next Year's Budgets

The Township's General Fund budget for next year calls for \$1,353,447 in revenue and \$1,353,426 in expenditures. A slight decrease in revenue was budgeted related to overall decreases in many departments. The decrease in revenue produced a budgeted decrease in the township board expenditure budget.

There are no new special assessments expected in 2008.

Contacting the Township's Management

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

Charter Township of East Bay

Statement of Net Assets December 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 1,875,491	\$ 1,998,357	\$ 3,873,848
Receivables:			
Property taxes/Special assessments	824,276	563,649	1,387,925
Intergovernmental	114,606	101,369	215,975
Cash held at the County	-	57,000	57,000
Investment in joint venture (Note 9)	1,486,000	-	1,486,000
Capital assets - Nondepreciable (Note 5)	768,104	2,252,438	3,020,542
Capital assets - Depreciable - Net (Note 5)	947,326	13,363,807	14,311,133
Total assets	6,015,803	18,336,620	24,352,423
Liabilities			
Accounts payable	41,039	184,475	225,514
Accrued and other liabilities	7,404	188,802	196,206
Deferred revenue (Note 4)	1,456,537	-	1,456,537
Noncurrent liabilities (Note 6):			
Due within one year	320,439	634,845	955,284
Due in more than one year	100,000	8,473,566	8,573,566
Total liabilities	1,925,419	9,481,688	11,407,107
Net Assets			
Invested in capital assets - Net of related debt	1,294,991	6,507,834	7,802,825
Restricted for:			
Fire and ambulance services	597,327	-	597,327
Township improvements	148,850	-	148,850
Unrestricted	2,049,216	2,347,098	4,396,314
Total net assets	\$ 4,090,384	\$ 8,854,932	\$ 12,945,316

Charter Township of East Bay

Statement of Activities Year Ended December 31, 2007

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Primary Government		
			Governmental Activities	Business-type Activities	Total
Functions/Programs					
Primary government:					
Governmental activities:					
General government	\$ 728,644	\$ 325,940	\$ (402,704)	\$ -	\$ (402,704)
Public safety	894,393	58,159	(836,234)	-	(836,234)
Public works	144,404	-	(144,404)	-	(144,404)
Recreation and culture	56,371	-	(56,371)	-	(56,371)
Interest on long-term debt	17,569	-	(17,569)	-	(17,569)
Total governmental activities	1,841,381	384,099	(1,457,282)	-	(1,457,282)
Business-type activities - Water and sewer	1,447,668	1,718,724	-	271,056	271,056
Total primary government	<u>\$ 3,289,049</u>	<u>\$ 2,102,823</u>	(1,457,282)	271,056	(1,186,226)
General revenues:					
Property taxes			1,240,045	-	1,240,045
State-shared revenues			671,446	-	671,446
Unrestricted investment earnings			73,235	78,156	151,391
Franchise fees			70,674	-	70,674
Miscellaneous			7,827	27,172	34,999
Total general revenues			2,063,227	105,328	2,168,555
Change in Net Assets			605,945	376,384	982,329
Net Assets - Beginning of year (as restated) (Note 11)			3,484,439	8,478,548	11,962,987
Net Assets - End of year			<u>\$ 4,090,384</u>	<u>\$ 8,854,932</u>	<u>\$ 12,945,316</u>

Charter Township of East Bay

Governmental Funds Balance Sheet December 31, 2007

	General Fund	Emergency Services Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 546,177	\$ 1,080,464	\$ 248,850	\$ 1,875,491
Receivables:				
Property taxes	280,919	543,357	-	824,276
Intergovernmental	114,606	-	-	114,606
Total assets	\$ 941,702	\$ 1,623,821	\$ 248,850	\$ 2,814,373
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 33,683	\$ 7,356	\$ -	\$ 41,039
Accrued and other liabilities	7,404	-	-	7,404
Deferred revenue (Note 4)	437,399	1,019,138	-	1,456,537
Total liabilities	478,486	1,026,494	-	1,504,980
Fund Balances				
Reserved for:				
Fire and ambulance services	-	597,327	-	597,327
Township improvements	-	-	148,850	148,850
Budget stabilization	-	-	100,000	100,000
Designated for:				
Township Hall capital improvements	40,000	-	-	40,000
Compactor Trailer	428	-	-	428
HRA	20,893	-	-	20,893
Playground Equipment	20,000	-	-	20,000
Parks Construction	833	-	-	833
Undesignated	381,062	-	-	381,062
Total fund balances	463,216	597,327	248,850	1,309,393
Total liabilities and fund balances	\$ 941,702	\$ 1,623,821	\$ 248,850	

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,715,430
Joint venture investments used in governmental activities are not financial resources and are not reported in the funds	1,486,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(420,439)
Net assets of governmental activities	\$ 4,090,384

Charter Township of East Bay

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2007

	General Fund	Emergency Services Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 341,806	\$ 898,239	\$ -	\$ 1,240,045
Licenses and permits	11,103	-	-	11,103
State-shared revenues	671,446	-	-	671,446
Charges for services	314,837	58,159	-	372,996
Franchise fees	-	-	70,674	70,674
Interest and rentals	35,874	37,361	-	73,235
Other	7,649	178	-	7,827
Total revenue	1,382,715	993,937	70,674	2,447,326
Expenditures				
General government	596,960	-	-	596,960
Public safety	228,587	850,834	-	1,079,421
Public works	143,891	-	-	143,891
Recreation and culture	32,741	-	-	32,741
Insurance and other	194,448	24,301	1,698	220,447
Debt service	15,489	-	39,825	55,314
Total expenditures	1,212,116	875,135	41,523	2,128,774
Net Change in Fund Balances	170,599	118,802	29,151	318,552
Fund Balances - Beginning of year	292,617	478,525	219,699	990,841
Fund Balances - End of year	\$ 463,216	\$ 597,327	\$ 248,850	\$ 1,309,393

Charter Township of East Bay

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 318,552
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Current year capital additions	75,428
Current year allocation of depreciation	(81,780)
Investment in joint venture income reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	256,000
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>37,745</u>
Change in Net Assets of Governmental Activities	<u>\$ 605,945</u>

Charter Township of East Bay

Proprietary Funds Statement of Net Assets December 31, 2007

	Enterprise Fund - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,998,357
Receivables:	
Special assessments	563,649
Intergovernmental	<u>101,369</u>
Total current assets	2,663,375
Noncurrent assets:	
Cash held at the County	57,000
Capital assets (Note 5)	<u>15,616,245</u>
Total noncurrent assets	<u>15,673,245</u>
Total assets	18,336,620
Liabilities	
Current liabilities:	
Accounts payable	184,475
Accrued and other liabilities	188,802
Current portion of long-term debt (Note 6)	<u>634,845</u>
Total current liabilities	1,008,122
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	<u>8,473,566</u>
Total liabilities	<u>9,481,688</u>
Net Assets	
Investment in capital assets - Net of related debt	6,507,834
Unrestricted	<u>2,347,098</u>
Total net assets	<u><u>\$ 8,854,932</u></u>

Charter Township of East Bay

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

	Enterprise Fund - Water and Sewer Fund
Operating Revenue	
Sale of water/benefit fees	\$ 976,959
Sewage disposal charges	741,765
Total operating revenue	1,718,724
Operating Expenses	
Cost of water produced/purchased	368,925
Cost of sewage treatment	354,190
Depreciation	361,617
Other expense	9,254
Total operating expenses	1,093,986
Operating Income	624,738
Nonoperating Revenue (Expense)	
Investment income	78,156
Interest on special assessments	27,172
Interest expense	(353,682)
Change in Net Assets	376,384
Net Assets - Beginning of year (as restated) (Note 11)	8,478,548
Net Assets - End of year	\$ 8,854,932

Charter Township of East Bay

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2007

	Enterprise Fund - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 1,716,349
Payments to suppliers	<u>(651,677)</u>
Net cash provided by operating activities	1,064,672
Cash Flows from Capital and Related Financing Activities	
Collection of customer assessments (principal and interest)	96,009
Principal and interest paid on capital debt	<u>(917,980)</u>
Net cash used in capital and related financing activities	(821,971)
Cash Flows from Investing Activities - Interest received on investments	<u>105,328</u>
Net Increase in Cash and Cash Equivalents	348,029
Cash and Cash Equivalents - Beginning of year	<u>1,650,328</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 1,998,357</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 624,738
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	361,617
Changes in assets and liabilities:	
Receivables	26,125
Other assets	(57,000)
Accounts payable and accrued liabilities	<u>109,192</u>
Net cash provided by operating activities	<u><u>\$ 1,064,672</u></u>

Charter Township of East Bay

Fiduciary Funds Statement of Assets and Liabilities December 31, 2007

	<u>Agency Funds</u>
Assets - Cash and cash equivalents (Note 3)	<u>\$ 1,083,061</u>
Liabilities	
Due to other governmental units	\$ 1,014,352
Due to others	<u>68,709</u>
Total liabilities	<u>\$ 1,083,061</u>

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

Charter Township of East Bay is governed by an elected seven-member board. The accompanying financial statements present the Township only since there are no component units which should be included as part of the Township's reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

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

Emergency Services Fund - The Emergency Service Fund accounts for the operation of the Township fire department and ambulance services. Financing is provided by a special property tax levy.

Note I - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to residents, financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

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

The Township's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Township totaled \$429,340,097, on which taxes levied consisted of 0.7378 mills for operating purposes. The millage for fire and ambulance services of 2.15 mills is levied on a taxable valuation of \$416,816,897 (real property only). This resulted in approximately \$323,000 for operating and \$898,000 for fire and ambulance services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 for equipment, machinery, and furniture and \$5,000 for building, building improvements, and other improvements, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

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

Roads and sidewalks	15 to 20 years
Water and sewer distribution systems	50 years
Buildings and improvements	15 to 50 years
Vehicles	3 to 5 years
Office furnishings and tools	3 to 7 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 2 - Stewardship, Compliance, and Accountability

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

Accumulated balance at January 1, 2007		\$	-
Current year building permit revenue	\$	11,103	
Related expenses - Direct costs		<u>(11,103)</u>	<u>-</u>
Accumulated balance at December 31, 2007		\$	<u><u>-</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The 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; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The investment policy adopted by the board has authorized all of the investments in the state authority as listed above. The Township's deposits and investment policies are in accordance with statutory policy.

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$3,095,904 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township 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 does not have a policy for custodial credit risk. At year end, \$1,488,480 was held in a bank investment pool.

The bank investment pool is held by the trust department of the bank and regulated by the Michigan Banking Act. The fair value of the position in the bank investment pool is the same as the value of the pooled shares. The bank investment pool is not rated as of December 31, 2007.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At December 31, 2007, the Township had \$1,456,537 in unearned revenue related to property taxes.

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2007 (as restated)	Additions	Balance December 31, 2007
Governmental Activities			
Capital assets not being depreciated - Land	\$ 768,104	\$ -	\$ 768,104
Capital assets being depreciated:			
Roads and sidewalks	117,376	4,065	121,441
Buildings and improvements	1,103,475	10,926	1,114,401
Vehicles	280,269	2,210	282,479
Office furnishings and tools	313,584	58,227	371,811
Subtotal	1,814,704	75,428	1,890,132
Accumulated depreciation:			
Roads and sidewalks	3,913	8,096	12,009
Buildings and improvements	344,350	34,178	378,528
Vehicles (as restated)	237,888	21,633	259,521
Office furnishings and tools (as restated)	274,875	17,873	292,748
Subtotal	861,026	81,780	942,806
Net capital assets being depreciated	953,678	(6,352)	947,326
Net capital assets	<u>\$ 1,721,782</u>	<u>\$ (6,352)</u>	<u>\$ 1,715,430</u>
Business-type Activities			
Capital assets not being depreciated -			
Construction in progress (as restated)	\$ 2,252,438	\$ -	\$ 2,252,438
Capital assets being depreciated - Water and sewer distribution systems	18,080,817	-	18,080,817
Accumulated depreciation - Water and sewer distribution systems	4,355,393	361,617	4,717,010
Net capital assets being depreciated	13,918,192	(361,617)	13,363,807
Net capital assets	<u>\$ 15,977,862</u>	<u>\$ (361,617)</u>	<u>\$ 15,616,245</u>

Charter Township of East Bay

**Notes to Financial Statements
December 31, 2007**

Note 5 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 39,252
Public safety	31,882
Public works	513
Recreation and culture	<u>10,133</u>
Total governmental activities	<u>\$ 81,780</u>
Business-type activities:	
Water	\$ 80,762
Sewer	<u>280,855</u>
Total business-type activities	<u>\$ 361,617</u>

Note 6 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance (as restated)	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities							
Installment purchase agreements -							
Township Hall agreement:							
Amount of issue: \$415,265							
Maturing through December 2010							
	3.70%	\$27,608 - \$221,483	\$ 338,184	\$ -	\$ (27,745)	\$ 310,439	\$ 310,439
2006 Capital Improvement Bond:							
Amounts of issue: \$120,000							
Maturing through March 2016							
	4.76%	\$10,000 - \$14,000	120,000	-	(10,000)	110,000	10,000
Total governmental activities							
			<u>\$ 458,184</u>	<u>\$ -</u>	<u>\$ (37,745)</u>	<u>\$ 420,439</u>	<u>\$ 320,439</u>

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Business-type Activities							
Contractual obligations with Grand Traverse County:							
1991 Water and Sanitary Sewer Extension #1							
Special Assessment (#321):							
Amount of issue: \$1,330,000							
Maturing through November 1, 2011							
	6.37%	\$85,000 - \$95,000	\$ 440,000	\$ -	\$ (80,000)	\$ 360,000	\$ 85,000
1991 Water and Sanitary Sewer Extension #2							
Special Assessment (#323):							
Amount of issue: \$210,000							
Maturing through July 1, 2011							
	4.77%	\$10,000 - \$15,000	55,000	-	(10,000)	45,000	10,000
Sewage Disposal System Series 1994 (#327):							
Amount of issue: \$210,000							
Maturing through November 1, 2013							
	6.04%	\$10,000 - \$15,000	85,000	-	(10,000)	75,000	15,000
Sewage Disposal System Series 2002 (#335):							
Amount of issue: \$800,000							
Maturing through May 1, 2023							
	4.08%	\$30,000 - \$60,000	680,000	-	(30,000)	650,000	30,000
Sewage Disposal System Bonds Series 1993							
(#325):							
Amount of issue: \$925,000							
Maturing through November 1, 2012							
	5.00%	\$65,000 - \$80,000	415,000	-	(60,000)	355,000	65,000

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Contractual obligations with Grand Traverse County (continued):							
Sewage Disposal System Bonds Series 1995 (#328):							
Amount of issue: \$3,725,000		\$17,903 -					
Maturing through May 1, 2015	2.62%	\$35,805	\$ 177,630	\$ -	\$ (15,692)	\$ 161,938	\$ 20,460
Sewage Disposal System Bonds Series 1998 (#330):							
Amount of issue: \$1,565,000		\$12,100 -					
Maturing through May 1, 2013	3.58%	\$14,850	91,093	-	(9,635)	81,458	12,100
Sewage Disposal System Bonds Series 2002 (#334):							
Amount of issue: \$32,900,000		\$44,936 -					
Maturing through November 1, 2022	3.80%	\$82,957	1,058,096	-	(64,639)	993,457	44,936
Water System Improvements Series 2001 (#332):							
Amount of issue: \$1,250,000		\$50,000 -					
Maturing through May 1, 2021	4.66%	\$95,000	1,035,000	-	(50,000)	985,000	50,000
Sewer/Water Improvements Bonds Series 2003 (#336):							
Amount of issue: \$6,745,000		\$137,412 -					
Maturing through November 1, 2023	4.06%	\$234,298	2,982,531	-	(137,411)	2,845,120	137,412
Grand Traverse County Septage Plant 2003 Township ownership 30.75%							
Amount of issue: \$7,800,000	2.25% - 5.00%	\$99,938 - \$199,875	2,221,688	-	(92,250)	2,129,438	99,937
2006 General Obligation Limited Tax Capital Improvement Bond:							
Amount of issue: \$201,000		\$10,000 -					
Maturing through April 2021	4.90%	\$18,000	201,000	-	(9,000)	192,000	10,000
Installment purchase - Water main extensions:							
Amount of issue: \$660,000		\$55,000 -					
Maturing through June 1, 2011	6.00%	\$65,000	285,000	-	(50,000)	235,000	55,000
Installment purchase - Water system lease purchase:							
Amount of issue: \$340,000		\$45,000	45,000	-	(45,000)	-	-
Maturing through February 15, 2007	5.45%	\$45,000	45,000	-	(45,000)	-	-
Total business-type activities			\$ 9,772,038	\$ -	\$ (663,627)	\$ 9,108,411	\$ 634,845

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 6 - Long-term Debt (Continued)

County Contractual Obligations - The above contractual obligations to the County are the result of the County's issuance of bonds on the Township's behalf. The Township has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. The remaining principal and interest to be paid on the bonds is \$11,669,596. During the current year, net revenues of the system were \$1,718,724 compared to the annual debt requirements of approximately \$1,000,000.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 320,439	\$ 9,024	\$ 329,463	\$ 634,845	\$ 380,957	\$ 1,015,802
2009	11,000	4,760	15,760	646,259	354,398	1,000,657
2010	11,000	4,236	15,236	681,001	327,459	1,008,460
2011	12,000	3,713	15,713	713,524	297,932	1,011,456
2012	12,000	3,142	15,142	548,531	268,477	817,008
2013-2017	54,000	6,521	60,521	2,521,805	990,319	3,512,124
2018-2022	-	-	-	2,928,273	453,543	3,381,816
2023-2027	-	-	-	434,173	21,967	456,140
Total	<u>\$ 420,439</u>	<u>\$ 31,396</u>	<u>\$ 451,835</u>	<u>\$ 9,108,411</u>	<u>\$ 3,095,052</u>	<u>\$ 12,203,463</u>

In April 2008, the Township paid off the installment purchase agreement for the Township Hall in advance of the 2010 maturity date, through an agreement between the Township Improvement Fund and the Water and Sewer Fund.

Note 7 - Risk Management

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

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 8 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The Township contributes 11 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested immediately.

The Township's total payroll during the current year was \$449,860, made up of \$333,444 from General Fund and \$116,416 from Emergency Services Fund. The current year contribution was calculated based on covered payroll of \$316,968, including \$251,960 from the General Fund and \$65,008 from the Emergency Services Fund. This resulted in an employer contribution of \$33,112 for the General Fund and \$6,284 for the Emergency Services Fund. There were General Fund employee contributions of \$8,404.

Note 9 - Joint Venture

The Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2010 with the City of Traverse City, the Townships of Acme, Peninsula, and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. Ownership of the treatment plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself and the townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the townships as to the treatment plant's operation and the townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of treatment plant costs. Each participant's pro rata share is determined by the volume of its sewage treated in relation to total sewage treated at the plant.

The Township is responsible for debt service on the debt issues listed in Note 6 as determined biannually based upon the percentage of the Township's flow to the total flow through the treatment plant. For the biannual period ended December 31, 2007, the Township's percentage was 9.51 percent.

Charter Township of East Bay

Notes to Financial Statements December 31, 2007

Note 9 - Joint Venture (Continued)

The Township also contributes one mill of its Emergency Services Fund tax levy to the Grand Traverse County Fire Department - Metro Division (Metro). Metro is a joint venture between the Township and Acme and Garfield Townships of Grand Traverse County. The Township's equity interest was 31.0 percent at December 31, 2007. This equity interest is adjusted annually and the 2007 equity interest balance is approximately \$1,486,000.

Note 10 - Contingent Liabilities

From time to time, the Township is party to various lawsuits and claims arising out of the normal conduct of its business. In the opinion of management, the financial position of the Township will not be materially affected by the final outcome of these legal proceedings.

Note 11 - Prior Period Adjustments

The accompanying net assets have been restated as of January 1, 2007 for the corrections of errors:

	Governmental Activities	Business- Type Activities
Net assets - December 31, 2006	\$ 3,394,340	\$ 8,478,548
Accumulated depreciation on vehicles and office furnishings (Note 5)	90,099	-
Septage treatment plant capital assets (Note 5)	-	2,252,438
Septage treatment plant accrued liabilities	-	(30,750)
Septage treatment plant long-term debt (Note 6)	-	<u>(2,221,688)</u>
Net assets - January 1, 2007 (restated)	<u>\$ 3,484,439</u>	<u>\$ 8,478,548</u>

Vehicles and office furnishings and tools beginning accumulated depreciation balances were restated by \$52,294 and \$37,805, respectively, due to a miscalculation in prior years of depreciation expense.

Beginning construction in progress, accrued liabilities, and long term debt for the business-type activities were restated by \$2,252,438, \$30,750, and \$2,221,688, respectively, for the Township's investment in the septage treatment facility.

Required Supplemental Information

Charter Township of East Bay

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 318,500	\$ 357,753	\$ 341,806	\$ (15,947)
State sources	699,000	671,445	671,446	1
Fees and permits	18,000	13,000	11,103	(1,897)
Charges for services	283,000	314,743	314,837	94
Interest income	25,000	39,673	35,874	(3,799)
Other income	750	5,951	7,649	1,698
Total revenues	1,344,250	1,402,565	1,382,715	(19,850)
Expenditures				
General government:				
Township board	89,690	119,289	117,926	(1,363)
Supervisor	50,012	50,657	49,168	(1,489)
Elections	7,800	7,800	5,197	(2,603)
Assessor	80,999	81,000	79,607	(1,393)
Clerk	91,771	86,828	78,274	(8,554)
Board of review	2,240	2,340	1,611	(729)
Treasurer	81,171	81,457	72,293	(9,164)
Township hall and grounds	225,440	233,811	192,884	(40,927)
Public safety:				
Sheriff patrol	82,500	132,000	131,784	(216)
Planning Commission/Board of Appeals	26,260	34,260	26,199	(8,061)
Planner/Zoning administrator	82,855	82,855	70,604	(12,251)
Public works:				
Road projects	35,000	35,000	30,787	(4,213)
Street lights	13,000	13,427	13,427	-
Compactor	109,100	110,682	99,677	(11,005)
Recreation and culture	47,050	47,013	32,741	(14,272)
Insurance and other	273,240	224,675	194,448	(30,227)
Debt service	15,395	15,489	15,489	-
Total expenditures	1,313,523	1,358,583	1,212,116	(146,467)
Net Change in Fund Balance	30,727	43,982	170,599	126,617
Fund Balance - Beginning of year	292,617	292,617	292,617	-
Fund Balance - End of year	<u>\$ 323,344</u>	<u>\$ 336,599</u>	<u>\$ 463,216</u>	<u>\$ 126,617</u>

Charter Township of East Bay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Emergency Services Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 922,350	\$ 994,453	\$ 898,239	\$ (96,214)
Charges for services	30,000	59,371	58,159	(1,212)
Interest income	19,000	37,261	37,361	100
Other income	-	179	178	(1)
	<u>971,350</u>	<u>1,091,264</u>	<u>993,937</u>	<u>(97,327)</u>
Expenditures - Public safety	<u>897,803</u>	<u>909,913</u>	<u>875,135</u>	<u>(34,778)</u>
Net Change in Fund Balance	73,547	181,351	118,802	(62,549)
Fund Balance - Beginning of year	<u>478,525</u>	<u>478,525</u>	<u>478,525</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 552,072</u>	<u>\$ 659,876</u>	<u>\$ 597,327</u>	<u>\$ (62,549)</u>

Charter Township of East Bay

Note to Required Supplemental Information Year Ended December 31, 2007

Note - Budgetary Information

The annual budget is prepared by the Township supervisor, with the assistance of the Township treasurer and clerk, and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Fund budgets as adopted by the Township board is included in the required supplemental information.

This comparison includes expenditure budget overruns. A comparison of the actual results of operations to the nonmajor Special Revenue Fund budget as adopted by the Township board is available at the clerk's office for inspection.

The Township did not have significant expenditure budget variances.

Other Supplemental Information

Charter Township of East Bay

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Township Improvement	Budget Stabilization	
Assets - Cash and investments	<u>\$ 148,850</u>	<u>\$ 100,000</u>	<u>\$ 248,850</u>
Fund Balance - Reserved for			
Budget stabilization	\$ -	\$ 100,000	\$ 100,000
Township improvements	<u>148,850</u>	<u>-</u>	<u>148,850</u>
Total fund balance	<u>\$ 148,850</u>	<u>\$ 100,000</u>	<u>\$ 248,850</u>

Charter Township of East Bay

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2007

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Township Improvement	Budget Stabilization	
Revenue - Franchise fees	\$ 70,674	\$ -	\$ 70,674
Expenditures			
Debt service	39,825	-	39,825
Other	1,698	-	1,698
Total expenditures	41,523	-	41,523
Net Change in Fund Balances	29,151	-	29,151
Fund Balances - Beginning of year	119,699	100,000	219,699
Fund Balances - End of year	\$ 148,850	\$ 100,000	\$ 248,850

Charter Township of East Bay

**Report to the Township Board
December 31, 2007**



Plante & Moran, PLLC
 Suite 300
 600 E. Front St.
 Traverse City, MI 49686
 Tel: 231.947.7800
 Fax: 231.947.0348
 plantemoran.com

To the Township Board
 Charter Township of East Bay

We have recently completed our audit of the basic financial statements of Charter Township of East Bay (the "Township") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of increased audit communications and required audit communication:

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We are grateful for the opportunity to be of service to Charter Township of East Bay. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

June 16, 2008

Report on Internal Control

June 16, 2008

To the Township Board
Charter Township of East Bay

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Township's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Charter Township of East Bay as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

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

We consider the following deficiencies to be significant deficiencies in internal control. The accompanying suggestions are for improving internal controls and may not be all encompassing to correct the internal control deficiency when implemented. The Township should consider each issue separately and decide if the deficiency has been addressed.

Bank Reconciliations - Bank reconciliations were not prepared on a timely basis due to the complexity of the cash accounts (in relation to the number of general ledger accounts included in each cash bank account and having most disbursements recorded through the General Fund with a duplicate reversing entry to move amounts to the appropriate fund). Bank reconciliations are required to be completed on a timely basis to provide accurate cash information for management to use in making decisions. The board is receiving copies of the bank reconciliations and bank statements when completed.

We recommend that timely bank reconciliations be prepared. To document timely preparation, we recommend that the Township utilize the sign-off/date procedure for both the preparer and reviewer of the bank reconciliations

Cash Processing - The treasurer has the ability to, and periodically does, participate in the cash receipting function. She also prepares bank reconciliations and makes deposits at the bank. We did note, however, that responsibilities often vary from day to day with staff members covering duties not typically in their job description. Because staff are familiar with all office duties, it makes it difficult for any one individual to hide actions that could be detrimental to the Township. We recommend that the Township remove the treasurer's ability to perform one of the above functions or institute a compensating control in the area of cash processing.

Fund Classification of Bonds - The Township had originally recorded bonds that were paid out of the Sewer Fund within the Water Fund. A reclassification entry was made in May 2008 to correct this error. These funds are reported on a consolidated basis; therefore, there is no impact on the audited financial statements. However, the board reviews internal financial statements on an unconsolidated basis.

Wire Transfer Access - The treasurer has the ability to initiate a wire transfer and add a new transferee. This access allows for the potential misappropriation of Township funds. We recommend that the Township request that its bank limit wire transfers to pre-approved vendors. Any changes to the listing of approved vendors should be verified and approved by a second account signer or by the Township board.

Special Assessments - In 2007, a detailed listing of special assessment balances by parcel number was provided. However, the special assessment receivable general ledger balances did not reconcile to the detail listing until an adjustment was made during audit fieldwork. This adjustment (\$4,864) reduced revenue in the Water and Sewer Funds and corrected errors in receivable accounts from prior years. As a result of the review performed by the new treasurer, these receivable balances were identified as correct and we were able to audit accordingly. In order to maintain accurate records, we recommend these receivable balances be adjusted on a regular basis to reflect cash receipts as they are collected and that balances be compared to the property tax software (BS&A) on a regular basis (monthly or at least quarterly). Additionally, the Township recorded an adjustment of \$30,440 to correct governmental special assessments.

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

Audit Adjustments

During the course of the audit, Plante & Moran suggested audit adjustments in the following areas:

- *Water and Sewer Revenue and Expenditures* - The Township made correcting adjustments in May 2008 for business activities relating to special assessments and water and sewer revenues and expenditures for the year ended December 31, 2007. The total adjustment resulted in gross adjustments of \$209,570 to revenue and expenditures. Accounts receivable for business-type activities were increased by \$101,369.
- *Posting of 2006 Audit Adjustments* - The Township did not record two prior year audit adjustments for business-type activities. This produced an adjustment to increase the fund balance in the current year by \$371,012.
- *Depreciation* - In 2007, depreciation had not been recorded in a timely manner for business-type activities. The adjustment for depreciation at year end created an additional expense and accumulated depreciation of \$361,617. Depreciation should be recorded on a monthly basis. In addition, a prior period adjustment was recorded for \$90,099 to correct depreciation expense on the governmental capital assets for an error in the calculation in prior years.
- *Septage Treatment Facility* - In 2003, the Township entered into a contract with Grand Traverse County and four other townships to construct a septage treatment facility. The Township's participation rate was set at 30.75 percent. At the same time, the County issued debt of \$6.5 million, of which the Township guaranteed \$1,998,750. In 2004, the County issued additional debt of \$1.3 million, of which the Township guaranteed \$399,750. The first principal payment on these bonds was paid in November 2005 with unspent bond proceeds and revenues from operations held at the County. The Township was not required to make a direct payment at that time. However, in 2006 and 2007, all five townships jointly borrowed \$438,044 (\$134,699 for East Bay Township) from Grand Traverse County to pay the second and third debt service payments. The Township did not record this activity on its general ledger or in the financial statements because there had not been any cash outlay directly from the Township. This resulted in a significant audit adjustment at year end to the Water and Sewer Fund classified as a prior period adjustment.
- Overall, the audit resulted in 19 journal entries to adjust Township balances as of December 31, 2007. A majority of the journal entries were accrual/balance sheet type entries that may not be submitted to the board for review during the course of the year.

We recommend that the Township review its balance sheet on a monthly basis and reconcile balances to supporting statements and schedules. Areas with prior audit adjustments should be given special consideration. Specifically, for depreciation, we recommend maintaining a depreciation schedule and recording depreciation on a monthly basis. For revenue and expenditures, we recommend reviewing the corresponding receivables and payables and reconciling the balances to statements from the county. For recording additional debt and fixed assets, we recommend sharing all significant contracts with your auditors when they are signed. For all other adjustments, we recommend preparing for the financial statement audit as soon as possible after year end, rather than when the auditors are in the field.

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

Very truly yours,

Plante & Moran, PLLC

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

Sharon Vargo, CPA

Results of the Audit

June 16, 2008

To the Township Board
Charter Township of East Bay

We have audited the financial statements of the Charter Township of East Bay for the year ended December 31, 2007 and have issued our report thereon dated June 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 4, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Charter Township of East Bay. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the Charter Township of East Bay, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 12, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of East Bay are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No sensitive estimates affecting the financial statements were identified.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were related to the prior period adjustments, upcoming pronouncements, and the Township's joint venture.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures were corrected by management and are summarized as follows:

- Increase deferred revenue in Hakala Hills Road special assessment by \$29,547
- Record increases in special assessments of \$23,533 and revenue of \$25,200. Record decreases in accounts payable of \$27,734 and special assessments of \$39,802 in the Water and Sewer Fund
- Increase cash and bond balances in the Sewer Fund by \$171,884
- Decrease cash and bond balances in the Water Fund by \$171,884
- Decrease bonds payable and increase fund balance in the Sewer Fund by \$70,471
- Decrease bonds payable and increase fund balance in the Water Fund by \$251,941
- Post depreciation expense in the Sewer Fund of \$280,855
- Post depreciation expense in the Water Fund of \$80,762

- Record prior period adjustment in the Sewer Fund to increase construction in progress by \$2,252,438, increase amount due to county by \$30,750, and increase bonds payable by \$2,221,688 for septage treatment plant
- Record current year activity in the Sewer Fund related to the septage treatment plant by increasing due to county by \$103,949, decreasing bonds payable by \$92,250, and recording bond interest expense of \$11,699
- Record accounts receivable in the Water and Sewer Fund for \$101,369
- Record prior period adjustment for governmental capital asset depreciation expense correction of \$90,099

Disagreements with Management

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

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated June 16, 2008.

Management's Consultations with Other Independent Accountants

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

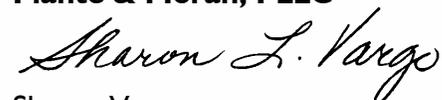
Other Audit Findings or Issues

In the normal course of our professional association with the Township, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Township's auditors.

This information is intended solely for the use of the Township board and management of the Charter Township of East Bay and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Sharon Vargo